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ABSTRACT

Since 1994, the German public employment service has not had a monopoly on placement. A new law permits private job placement as an independent activity, but only with a license from the public employment service. Since deregulation, the number of job placement licenses has increased continuously, but the number of placements made by private agencies has remained relatively constant at 170,000-180,000 per 6-month period. Short-term placements constitute a definite emphasis of private agencies' activities. Although the number of placements in employment relationships exceeding 7 days has increased from a very low level, they hardly play an important role in quantitative terms. Only 4 percent of all placements made in the national economy could be attributed to private job placements in 1996. The market share of private recruitment is no more than 1.5 percent. The relationship of public and private placement services has a qualitative dimension. Public placement services no longer must deal with cases that can be adequately served by the market and can concentrate limited resources on issues for which the market cannot offer solutions. Target group orientation is not yet fully used. Cooperation between public and private placement services has been rare. The employment-creating effects of job placement activities are likely to remain relatively slight. Two figures, and 8 tables are appended. Contains 21 references. (YLB)

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No. 31

Institut für Arbeitsmarkt- und Berufsforschung

Institute for Employment Research

Ulrich Walwei

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Job Placement in Germany:

Developments Before and After Deregulation

- **Institutional changes**
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Ulrich Walwei[1]

Job Placement in Germany: Developments Before and After Deregulation

1 Introduction

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1 Introduction

1.1 Study plan

For more than 60 years private job placement eked out a shadowy existence in Germany. Apart from a few exceptions, commercial forms of private job placement in particular were prohibited. The German public employment service (Bundesanstalt für Arbeit) had a so-called "placement monopoly". In 1994 the picture changed. Since then the conducting of private job placement (though not placement in training places) has been permitted as an independent activity, even when conducted with a view to making profit. In this way the public employment service has lost its exclusive right, i.e. public and private placement services can now exist side by side. However according to the new law, private placement services are only permitted with a licence from the public employment service. People considered not trustworthy or inadequately qualified can be excluded by a licensing procedure. This procedure is also intended to serve to protect the image of reputable placement agencies.

With the deregulation of job placement the legislator hoped to be able to acquire additional personnel resources for the matching of labour market supply and demand. It was hoped that this would lead to an improvement and acceleration in the matching procedures in the labour market (cf. the debate surrounding the abolition of the placement monopoly: Deeke 1992; Egle and Zahn 1992; Klein 1993; Klös 1991; Walwei 1991). The social policy task of the public employment service as an institution which is active throughout the country and whose placement services are open to everybody remained untouched. Three years after deregulation it is now time to take a look at both the expected and the unexpected and perhaps even undesired effects of this measure.

For the analysis a range of data sources can be utilised. The statistics of workers in employment covered by the social security system (employment statistics), which are recorded by the public employment service, provide information about the stocks and the flows (employment relationships commenced and terminated) on the labour market. The placement statistics of the public employment service provide information regarding the development and structure of the placement activities carried out by public and private services. A comparison of the placement statistics with the data from the employment statistics makes it possible to calculate the relative market importance of the public and private placement services. Finally there is the possibility to compare the official statistics named above with the results of a business survey on the national economic demand for labour, which is carried out regularly and also asks about search methods. As with all studies referring to post-reunification Germany, there are in this article, too, not inconsiderable data problems with regard to the new federal states or *Länder* (eastern Germany). In this respect the following report concentrates first and foremost on the old *Länder* (western Germany) and provides, as far as is possible, supplementary information regarding the developments in the new *Länder* (eastern Germany).

The study starts with some background information about the recent German labour market situation. It has two main parts: a descriptional and an evaluation part. In its descriptional part attention is focused on the changes in the law which were carried out in the process of deregulation. To facilitate better understanding, the section begins with the historical development and then describes the legal position before and after deregulation in 1994. On this basis the empirically measurable activities of private job placement services before and after deregulation can then be examined in detail. The evaluation part starts with a rather theoretical description

of the peculiarities of job placement as a service. There then follows an estimation of the potential market for job placements and the quantitative role played by either public and private job placement agencies. Consistently this is followed by a look at the most important effects of the activities of private placement agencies which were only made possible by deregulation. This matter concerns the impacts of deregulation on the relationship between public and private placement services, the consequences for the labour market per se (i.e. for employment and unemployment), and the question as to whether the legislative framework has proved to be effective. The concluding section should finally summarize the main results and clarify the extent to which private job placement has already become established and how the relationship between public and private placement services is likely to appear in the longer-term.

1.2 Labour market background

The labour market situation in Germany is marked by high and increasing numbers of unemployed. Approximately 4.39m people were registered as unemployed in the annual average in 1997. This is equivalent to an unemployment rate of 12.7 % (unemployed people compared with the civilian labour force). It can be assumed, however, that there are more potential jobseekers than the registered unemployed people. Participants in certain labour market policy programms in particular in training measures[2] and the people in the so-called "hidden labour force" must also be taken into account. The former group is estimated at 0.76m people in employment equivalents (see Table A1 in the Appendix). The "hidden labour force" consists of people who are not seeking a job through the employment office and people who are not seeking work at present but who would look for and take up employment if the economic situation improved. There are an estimated 1.9m people in this group.

The development of unemployment over the course of time is also worrying, as even after an economic upswing, unemployment has remained high. In the case of the economic recovery in the late 1980s and early 1990s, unemployment decreases considerably more slowly than employment increases. An increase in employment during an economic upswing is fed only partially by unemployment. The bulk of the newly employed people come from the hidden labour force or are people who are taking up work for the first time (e.g. school leavers) or are returning to work (e.g. women).

As a consequence of the persistent employment crisis, a hard core of unemployed people has developed, with a large proportion of long-term unemployed individuals. Long-term unemployment is defined as an uninterrupted period of unemployment lasting one year or longer. In Germany at present more than one third of all registered unemployed people have been unemployed for longer than a year. The labour force survey of the Statistical Office of the European Community (EUROSTAT) finds a significantly higher proportion of approximately 10 to 15 percent. This is due to the fact that in the official German statistics, short periods of sickness or employment interrupt the spell of unemployment. In the EU labour force survey, in which workers themselves are interviewed, such periods are often not regarded by those affected as interruptions in unemployment.

In addition to the long-term unemployed, hard-core unemployment is also increased by people whose employment is repeatedly interrupted by periods of unemployment. These multiple spells of unemployment - also referred to as "perforated" long-term unemployment - do not always receive the same attention as long-term unemployment, even though they can have

[2] People in subsidised employment can not be seen as potential job seekers because they are part of the total employed.

similarly unfavourable consequences on an individual's subsequent career and chances of reintegration into the labour market.

From the point of view of labour market policy, particular attention is to be paid to the "hard core" of the unemployed: multiple spells of unemployment affect in particular young people and male workers with low qualifications, whereas long-term unemployment is concentrated in Germany more on older workers. The risk of older workers remaining permanently unemployed increases even further when they also have a lack of skills and health problems (see Rudolph 1994).

It must also be pointed out that the German labour market situation is characterised by considerable regional discrepancies. This is true firstly of the severe labour market problems in eastern Germany, which are the result of the transformation from a planned economy to a market economy, and the restructuring process linked with this. In 1997 when 9.8 % of the labour force was unemployed in western Germany, the figure was 18.1 % in eastern Germany. Secondly there are, however, also huge regional differences in the unemployment rates if regions within western or eastern Germany are compared with each other. In general, unemployment is higher in southern parts of western and eastern Germany than in northern parts.

2 Descriptional part

2.1 Private job placement agencies before deregulation

2.1.1 Historical overview

For more than six decades (from 1931 to 1994) a placement monopoly existed in Germany which virtually prohibited private agencies, in particular those working on a commercial basis, from carrying out activities in the field of job placement and placement in training places, and granted the public employment service sole responsibility for job placement (cf. on this and the following: Egle and Zahn 1992). How did such a serious restriction of freedom of trade come about in Germany?

Although first forms of job placement are mentioned in German history as early as the Middle Ages, it was only in the course of industrialisation that an increased occurrence of private job placement agencies could be observed. This is explained by the fact that the jobseekers lacked knowledge of and an overview of the labour market due to the radical economic changes. In the 19th century the prevailing opinion was that free competition among the most widely differing placement organisations could best guarantee an effective offer of service. Thus with the introduction of freedom of trade in 1869, commercial job placement was permitted without restriction. In addition to the commercial job placement agencies, there were the most varied forms of non-profit-making job placement services in the late 19th century and the early 20th century. They can be seen as a response to the exceptionally difficult labour market situation at that time. An increasing role was played by placement facilities of the communities, of the trade unions and workers' associations, of charitable associations and of the employers' associations and chambers.

The end of the 19th century was characterised by a co-existence of high unemployment due to massive job losses in agriculture and a shortage of labour in the newly emerging industries. This situation was exploited by untrustworthy placement agencies. In quite a few cases the

commercial agencies made business out of the difficulties of those seeking employment, e.g. by practically auctioning jobs to those interested. From the employers' side, too, collaboration with commercial job placement agencies did not bring only advantages. In some cases they became victims of subtle poaching practices. It was also no seldom occurrence for cunning agencies to demand advance payment of fees from employers and then retain the fees without ever having produced an adequate service in return.

The cases of misuse in the end led in 1910 to the legislator making job placement a trade requiring a licence. The non-commercially operated placement agencies were placed under the control of the German *Länder*, and a needs-orientated control of trading licences was introduced for commercial placement agencies. With the end of the First World War and the subsequent recommencement of mass unemployment, the government became convinced that the fragmented and therefore unclear placement system was no longer able to fulfil the requirements of the labour market. A central, public placement service was seen as an answer to the labour market crisis. So in 1922 the local placement offices were put under the control of an Imperial Office for Job Placement (Reichsamt für Arbeitsvermittlung) (the predecessor of today's public employment service) and subordinate regional offices for job placement. As the problems caused by commercial placement agencies could not be eliminated permanently, in spite of the introduction of compulsory licences, the decision was also made in 1922 to stop issuing new licences for commercial job placement and to phase out the existing ones after a maximum of 10 years (1931). The independent, non-commercial placement organisations remained untouched and simply obtained a licence for job placement from the Imperial Office or the Regional Offices. In 1927 the independent local placement offices were disbanded altogether and were combined to employment exchanges under the umbrella organisation of the so-called "Imperial Institute for Job Placement and Unemployment Insurance" (Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung). Furthermore most of the non-commercial placement organisations were gradually transferred to the Imperial Office. The remaining placement organisations passed into insignificance. The phasing out regulations remained in place for the commercial job placement services. The ban on commercial placement services came into force on 1 January 1931. It accounted for the placement monopoly of the public labour administration and was to remain virtually unchanged until 1994.

National socialism then changed the public employment service into a pure labour deployment administration. After the Second World War, the restructuring of the public employment service made only slow progress. Not until 1957 was a centrally managed public employment service developed which included both the administration of unemployment insurance and the placement services. In carrying out ILO convention No. 96, which was ratified by the Federal Republic of Germany, job placement became a government sovereign task, incumbent solely upon the public employment service. Until the deregulation of job placement finally took place in 1994, private agencies had only very limited authorisations.

2.1.2 Legal situation until 1994

In the period up to the introduction of new regulations in 1994 the public employment service was almost exclusively responsible for the placement in jobs and training places. Public placement services are an integral part of public labour market administration. In addition to the actual placement the German *Bundesanstalt für Arbeit* has tasks such as the administration of unemployment insurance schemes, the organisation of further training and retraining schemes for job seekers, the implementation of job-creation schemes and the distribution of labour market information. One of the main reasons for the job placement monopoly in the period after the Second World War was the idea that the incorporation of various and exclusive functions

in one institution may offer the advantage of comprehensive and active employment measures from one single source.

Personal jobsearch activities remained untouched by the placement monopoly. Although utilisation of the public placement services was basically voluntary, there was an obligation, which is still in place today, for unemployed benefit recipients to report to the employment service at regular intervals, and these people were usually not allowed to refuse placement suggestions. In contrast there has never been an obligation on the part of the employers to register job vacancies with the employment service. Thus in post-war Germany there was never a so-called "job filling monopoly", which would have enforced a compulsory involvement of the public employment service in job filling processes.

Logically job offers and candidate offers in newspapers and magazines, on the radio, television and teletext were not regarded as job placement. Occasional unpaid recommendations of workers for recruitment was not forbidden either. The old placement laws did not in any way restrict such measures on the part of the communities that were directed towards assisting certain disadvantaged groups (e.g. recipients of social assistance) in their re-entry into the labour market by providing them with information about jobs and targeted placement offers. There were four areas that, for different reasons, were exempted from the public placement monopoly, these were: (1) the delegation of placement tasks to non-profit, charitable organisations; (2) the delegation of placement tasks to profit-making performer and modelling agencies; (3) the supply of labour by temporary employment agencies; (4) the placement of managerial staff.

One of the exemptions from the placement monopoly was in the area of non-commercial agencies. Charitable organisations were able to obtain from the public employment service a concretely defined order for the placement of jobs and/or training places (e.g. for the placement of certain occupational groups or certain groups of people). Examples of this are placement offices at universities and polytechnics (primarily student placement offices), in cases of various voluntary charitable organisations as well as self-help organisations belonging to the professional associations and organisations. Non-profit job placement merely had to be reported to the public employment service. The organisations could only demand fees from the workers placed. These fees, however, were not to exceed 4% of the placed worker's gross monthly pay.

A further exemption concerned the profit-orientated placement of performers and similar occupations. This exemption took into account the specific interests of these occupational groups which are characterised by frequently changing assignments. In a similar way to the non-commercial placement services, however, contracts were issued here too by the public employment service. Unlike the non-commercial agencies, however, the performer agencies were obliged to have a special permit. Such permits were only granted after an individual, needs-oriented test. The permit was given to agencies that procured for example performers for the theatre, music, film, television as well as photographic models. The commercial performer and modelling agencies were also only allowed to take fees from workers for whom employment had been found. The maximum charge was 10% of the placed workers' gross monthly pay.

The supply of temporary workers by commercial agencies was permitted because it was not regarded as job placement. From a legal point of view we speak of hiring out labour when an employer (lessor) hires out workers (temporary workers) to a third party (lessee) to perform work. In 1972 the legislator regulated the supply of labour by temporary employment agencies

with a special law. The intention of this law was to monitor the temporary employment business in order to prevent disruptions on the labour market. Furthermore the regulations were intended to ensure a minimum level of protection regarding industrial law and social insurance matters for the agency workers. This branch has, however, always been characterised by illegal forms of employment which are particularly common in the construction industry. In 1981 the legislator introduced a strict ban on the supply of temporary workers in the construction industry in an attempt to put a stop to illegal activities. There are also legal restrictions concerning the maximum duration of hiring out workers. These aim to emphasise the employer function of the lessor. The maximum duration has, however, been continuously increased in the course of time. It rose from three months in 1972 to initially six months in 1985 and finally nine months in 1994.

The legal regulations regarding the commercial supply of workers by temporary employment agencies have always been closely linked to job placement in Germany. What is decisive in the differentiation of the two issues is where the employee has his/her contract of employment. According to the currently valid law the employer function is concentrated on the lessor in the case of hiring-out labour, and in the case of placement it is concentrated on the "lessee" company. For the practical implementation of the differentiation the legislator imposed a ban on fixed-term employment from the outset, requiring an absolutely unlimited employment relationship between the lessor and the agency worker. In addition there is the so-called "synchronisation ban", according to which the duration of the employment relationship must at least exceed the first period of temporary work done for a lessee. Independently of this the permission for hiring out workers made it possible to by-pass the placement monopoly, since businesses in which temporary workers are placed can utilise the deployment of agency workers in their search for employees to be employed on a longer-term basis. From an economic point of view the supply of labour by temporary employment agencies can function at least in certain cases as a substitute for job placement.

The activity of so-called "personnel consultants", who are active in particular in procuring and selecting managerial staff, constituted a grey area for a long time. As early as 1957 delimitation criteria were worked out between the umbrella organisation of management and personnel consultants and the public employment service. If these criteria were adhered to, the placement-related activities of personnel consultants were tolerated by the public employment service. Personnel consultants were allowed to operate if, on the basis of concrete orders, they were involved in the search for and selection of suitable candidates to fill managerial positions.[3] With a revised version of the delimitation criteria in 1990, personnel consultants were also given the entitlement to "head-hunting" as a search method. There was, however, a need for action for revised legal regulations in the field of job placement after a decision by the European Court of Justice on 23 April 1991, which declared its position in a lawsuit concerning the fee claims of a personnel consultant. In the opinion of the court the existing limitations of the placement of managerial staff contradict the EEC treaty. This was accounted for by the fact that the placement of managerial staff was regarded by the court as a business activity and is therefore fully subject to the rules of the European law on competition. The court saw in the job placement monopoly a violation of the prohibition of abuse of a dominant position on the market by a Member State, because the public employment service was not in the position to satisfy fully the demand on the market for the placement of managerial staff and

[3] In contrast, activities were regarded as illegal job placement if they concerned the collaboration of personnel consultants in filling vacancies for workers who are not classed as managerial staff or if the activity was begun without prior concrete orders from a business referring to an individual case. The same was true for cases in which a personnel consultant puts forward a candidate who has become known to him during a personnel consultation for other jobs, or offers him other vacancies.

at the same time private placement agencies were prevented from carrying out their activities in this way. After this decision the public employment service refrained from pursuit and prevention measures in the case of placement of managerial staff by personnel consultants in Germany until the law was revised in 1994.

2.1.3 Former activities

The description of the development of private placement agencies in Germany up until deregulation in 1994 has four parts, analogous to the description of the legal regulations. Firstly the business statistics of the public employment service provide information about the non-profit-making placement agencies commissioned until 1994. Secondly the same statistical basis can be used to follow the development of the commercial performer and modelling agencies. Thirdly a closer look is taken at the commercial supply of workers by temporary employment agencies, whose legislative framework was not so much affected by deregulation in 1994. Fourthly there follows a short overview of the activities in the field of placement of managerial staff, which although not allowed until 1994, was nevertheless tolerated.[4]

Delegation of placement tasks to non-profit-making placement agencies

Information concerning the number of non-commercial placement organisations established and the number of placements made by them is shown in Table A2 in the Appendix. According to this table the number of such agencies changed only insignificantly from 49 in 1979 to 52 in 1988. After that, however, the number of non-profit-making placement organisations increased more considerably. In the year before deregulation there were some 65 not-for-profit placement agencies in western Germany and a further five in eastern Germany. A fundamental reason for this was the more relaxed practice of delegation since the late eighties. In contrast with this, the more liberal practice of delegation and the reunification had a far weaker effect on the overall number of placements. The 52 commissioned placement agencies in 1988 made 174,167 placements, which was almost as many as the 70 placement agencies made in 1993 with their 177,056 placements. The increase in the number of workers placed by non-commercial agencies took place before the practice of delegation was changed. By far the largest number of placements is made by student organisations[5], which in 1993 made about 90% of all placements. The corresponding proportions of the welfare organisations[6] (7%), other organisations[7] (2%) and of professional associations and organisations[8] (just under 1%) were clearly lower in comparison with this. The vast majority of these placements (more than 90%) were in short-term employment, i.e. with a duration of up to seven days. Consequently not even 10% of all placements made were for a period exceeding seven days.

Delegation of placement tasks to profit-making performer and modelling agencies

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[4] The description of the fields of the commercial supply of temporary workers and personnel consultation also includes the current developments because the major deregulation in 1994 brought about no serious changes for either of the two cases.

[5] Student organisations were only allowed to place students in short-term employment (i.e. in employment relationships with a duration of up to seven days).

[6] Welfare organisations belonging to churches and independent providers were able to receive permits for the placement of people in particular need (e.g. recipients of social assistance, people of no fixed abode or those released from prison.

[7] A whole conglomeration of institutions came under the category of other organisations, e.g. au-pair agencies or agencies for the placement of technical staff.

[8] Professional associations and organisations only received permission for the placement of the occupational groups they dealt with. There were (and in some cases still are today) such self-help organisations for example for nursing staff, doctors, chemists and football players.

Similarly to the situation with the non-profit placement agencies, the number of performer and modelling agencies has also increased steadily. In particular at the beginning of the 1980s and, as a result of reunification, in the early 1990s, the number of performer and modelling agencies grew (see for the following Table A3 in the Appendix). In the last year before deregulation there were 220 agencies performing placement activities for arts-related occupations, above all in the fields of concert music (46 commissions), management of performers (42), photographic modelling (36) and shows/entertainment (32). Parallel to the number of performer and modelling agencies, the number of placements made by them also rose to more than 187,000 by 1992 from 115,000 in 1979. A sharp drop in the placement figures occurred, however, in 1993. This cannot, however, be put down to a decline in the placement business but to a change in the statistical demarcation. A considerable number of placement cases before 1993 were not dependent employment relationships but were freelance service contracts. This kind of placement did not come under the placement monopoly at all, however, so they did not need any kind of allowance. This also explains the decline in the number of performer and modelling agencies from 1992 to 1993 in spite of overall more liberal practice of delegation. In quantitative terms the largest role in the number of placements in 1993 was played by the fields of photographic modelling (43% of all the placements in the arts field) and concert music (39%). Just as with the not-for-profit placement organisations, the vast majority of placements made by the performer and modelling agencies (85%) were for short-term employment of less than 7 days. The proportion of placements in employment lasting more than seven days was once much higher, at least at the beginning of the eighties, e.g. in 1981 with almost 32% of a total of 120,000 placements in entertainment occupations.

Commercial supply of workers by temporary employment agencies

For years now there has been a clear increase in the importance of the supply of workers by temporary employment agencies in Germany. The number of such agencies increased strongly in particular in the second half of the eighties and the early nineties. The figure in 1985 was 1722 temporary employment agencies, but this rose in 1990 to 5343 and in 1996 even to 8298. It must be pointed out here, though, that at each of these times about a third of the temporary employment businesses registered reported no stock of temporary workers. Somewhat more than 40% of the temporary employment agencies with temporary workers in employment reported that the supply of temporary workers was their sole or principle business objective. The proportion of these businesses is, however, decreasing: in 1985 it still stood at almost 53%. Since 1986 the statistics have been dominated by so-called "mixed enterprises", in which "normal" employment in the company predominates against the hiring-out to another employer (lessee).

Taking employment trends as a basis, the supply of temporary workers is one of the most strongly expanding economic branches in the whole economy. The strong growth of the temporary employment business since the mid-eighties is mirrored in the official statistics with the number of agency workers in temporary employment reported by the temporary employment businesses to the public employment service at the end of each month. The development of the time series of agency workers hired out to companies at the end of the month clearly shows the expansion of this industry in the past years (see Figure F1 in the Appendix). The figures show furthermore the considerable seasonal fluctuations in the temporary employment business, whereby the peak is always reached in the summer months. Compared with the proportion of workers in employment subject to social security contributions in western Germany, the share of temporary workers increased from 0.22% in 1980 to 0.24% in 1985, 0.55% in 1990 and 0,72 % in 1996 (cf. on this and on the following : Rudolph und Schröder 1997)

The growth in the supply of temporary labour can be attributed to motives on the part of businesses and employees. For many lessee companies, using temporary workers also contributes to the reduction of costs and the externalisation of risk in addition to combating the problem of an unstable demand for labour. According to considerations of business economics, temporary employment constitutes a joint reserve of labour. Being able to fall back on an external employment pool enables the lessee companies to reduce their own manpower reserves without forfeiting the ability to react when there are fluctuations on the commodity market. Furthermore, temporary employment obviously constitutes an interesting option in the working life of more and more people, especially young people, and not only in the form of typical seasonal work, but also as a bridge or entry into permanent employment.

This latter aspect is also reflected in the official statistics of temporary work via temporary employment agencies, which record the terminated temporary employment relationships in the course of a year, differentiated according to their duration. On average in the years from 1980 to 1995, 70.9% of the workers terminating employment relationships with the agencies were under contract with the temporary employment business for less than three months (cf. Rudolph and Schröder 1997). Accordingly the employment relationships between employee and temporary employment agency are of a predominantly short-term nature. Core workforces play only a subordinate role in the temporary employment businesses. The supply of temporary workers is therefore taking on a placement function, to an extent which cannot be ignored, by workers first undergoing a non-binding work trial before being employed on a permanent basis.

Placement of managerial staff via personnel consultants

Personnel consultation in Germany emerged in the sixties from management consultancy. In the mid-seventies there was a real wave of such new businesses being set up. The reason for this was that managerial staff were being sought and exchanged increasingly. All sorts of personnel consultation services are offered by personnel consultants. Searching for and selecting managerial staff is only one block in a wider range of offers.[9] There are four different types of personnel consultation business. There are specialised personnel consultation firms which offer solely or at least predominantly services for the personnel management in companies. In addition there are management consultancy firms which work partially in the field of personnel consultation. Furthermore advertising agencies also offer personnel services (e.g. when using situations vacant advertisements). More and more information services which utilise the modern forms of communication technology (e.g. the Internet) for the dissemination of information on jobs and candidates are also moving to the fore in this market. Finally other businesses which deal in part with personnel matters can also deal in individual cases with searching for and procuring managerial staff, such as for example lawyers and accountants.

According to estimates by the Federal Association of German Management Consultants (Bundesverband Deutscher Unternehmensberater (BDU)) from the early to mid-nineties there were some 900 to 1000 consultancy businesses with 2500 personnel consultants. Roughly one third of these are specialised personnel consultancy firms. The association assumes that the majority of the personnel consultation orders (approx. 70-80%) are carried out by the 50 leading personnel consultation firms. The market importance of personnel consultants in the

[9] Other typical personnel consultation services are: conception and implementation of special measures for staff development; assistance in the development, introduction and updating of personnel policy instruments; implementation of training instruments (e.g. management training); support in matters regarding labour law; assistance in the establishment of remuneration systems; outplacement; individual occupational guidance for managerial staff (cf. Gaugler 1991).

field of placement of managerial staff can only be estimated with difficulty. This has to do with the fact that the term managerial staff is difficult to define statistically and that there is no reliable data concerning all the managerial staff recruited with the aid of personnel consultants. The Central Office for Job Placement (Zentralstelle für Arbeitsvermittlung (ZAV)) of the public employment service, which is responsible for the placement of managerial staff, assumes there to be some 30,000 managerial vacancies to be filled every year. According to available information half of these positions are filled from within the company and the other half are filled externally. Of the managerial positions filled from outside the company, according to the ZAV, half again (and therefore a quarter of all managerial vacancies) are filled via the search efforts of the company wishing to recruit (e.g. by placing advertisements in newspapers) and the remaining half are filled via the involvement of placement services (personnel consultants: estimated at 6000 to 7000; public employment service: according to official statistics 600 - 700).

2.2 Private job placement agencies after deregulation

2.2.1 The two stages of deregulation in 1994

The deregulation of job placement occurred in two stages (cf. on the legal aspects: Marschner 1994). Following the relaxation of the public employment service's job placement monopoly with effect from 1 April 1994, the exclusive right was severely limited as of 1 August 1994. Since then the monopoly has been limited only to vocational and occupational guidance and placement in vocational training places and no longer covers job placement. The areas that are still subject to the monopoly are, however, also to be opened up to private providers from 1 January 1998 at the latest.

As early as 1 April 1994 the authorisation process for placement agencies was remodelled from a legislative point of view. Instead of the delegation procedure that was valid previously (the public employment service giving placement orders to non-commercial organisations and profit-making performer and modelling agencies), a process similar to licensing was introduced. Since then the public employment service has issued licences for job placement activities. For this the law that was only valid until 31 July 1994 made the transitional regulation according to which all organisations which had already been carrying out placement activities on behalf of the public employment service received a licence. The revision of the law brought with it a less bureaucratic approach for the licence procedure for non-commercial agencies and legalised the placement of managerial staff. The legal situation valid in the short period from 1 April 1994 to 31 July 1994 allowed private placement agencies a legal entitlement to being granted a licence in as far as it concerned the placement of managerial staff. Only in this respect was the placement monopoly of the public employment service broken. With regard to personnel consultation, which was already largely tolerated before deregulation, it was legally laid down that this service, which lies outside the field of actual job placement, does not require a special licence. In order to prepare further liberalisation steps the law planned for regionally limited model experiments towards a complete elimination of the placement monopoly. This was never to occur, however, because of a more extensive revision which took effect from 1 August 1994.

The law which has been in place since 1 August 1994 adheres to the licensing procedure from a legal point of view. According to this law, private job placement is only allowed with the authorisation of the public employment service. The requirement for authorisation is an application for a licence to carry out job placement activities. There are two different types of licence for job placement activities: a general licence and a special licence. In general, job

placement is permitted for all occupations and groups of people, now irrespective of whether it is carried out with a view to profit or not. A general licence is issued for job placement activities within the Federal Republic of Germany as well as to and from other EU states or states covered by the convention on the European Economic Area. The application can (but does not have to) include details of which region the applicant wishes to conduct job placement activities in and whether the job placement activity is restricted to certain occupations or groups of people. If placement is to be conducted to or from states outside the European Union or the European Economic Area, a special job placement licence is required. This special licence is, however, only issued for certain workers, e.g. performers, entertainers, photographic models, sports professionals, sports coaches and managers, au-pair workers under the age of 25 as well as in cases of holiday employment for school pupils and students as a part of international exchange programmes.

A licence holder can be either a natural person or a corporate body. The licensing procedure is carried out by the Regional Employment Offices. It is stipulated here that the task of dealing with licence applications may not be given to any members of staff or departments in the Regional Employment Offices that come into contact with tasks of job placement in the public employment service. Unlike the law that was decisive until the end of July 1994, the law valid since then allows anyone who meets certain minimum requirements legal entitlement to obtaining a licence for job placement.

A licence for job placement is issued when four requirements are met. Firstly the applicant must possess the required suitability for job placement. People are considered suitable if for at least three years their work involved tasks in the field of personnel management, job placement, personnel consultation or the supply of temporary workers and if they have a recognised vocational qualification or a degree from a university or other higher education establishment. Secondly the application documents submitted (in particular the certificate declaring that the applicant does not have a criminal record) must lead to the expectation that the applicant will comply with and follow the regulations valid for private job placement and the adjoining fields of law (criterion of reliability). Thirdly the applicant must provide proof that he or she lives in well-ordered financial circumstances. Finally suitable business premises must be available. These can also be part of a private house or flat which is used solely for business purposes.

When an application is made for the first time the licence is initially limited to three years. On further application it can then be extended indefinitely. The public employment service charges a fee of DM 1000 for issuing a limited licence and DM 2000 for a permanent licence. The licence can be revoked if no placement activity has been performed during a period of more than two years. It must be revoked if the applicant has repeatedly or seriously contravened legal regulations.

In the performance of job placement activities the licence holder has to comply with a range of regulations. He or she does not only have to observe the special rulings valid for private job placement, but over and above that also the rest of the law in as far as it is relevant for the activity of job placement (e.g. regulations in the area of labour law). A licence holder is not allowed to arrange either with a jobseeker or with an employer that an employment relationship may only be effected via his placement activity. He or she is also obliged at all times to provide information to the public employment service, as the licensing authority, to submit documents and tolerate checks. This also includes passing on data regarding his or her placement activities at six-monthly intervals.

The regulations regarding payment for placement services are of particular importance. In principle private placement agencies may only demand or accept payments from the employer and not from the jobseeker. The amount, the method of calculation, and the settlement date of the payments to be made by the employer for placement services can in principle be arranged freely. The placement agency cannot, however, demand any payment, not even an advantage equivalent in value to a payment, from the employee. It is also not allowed to accept any payment that the employee offers of his own accord. There are, however, some exceptions to this generally valid regulation which are worth mentioning. Analogous to the regulations valid previously, employees may be charged fees when they are placed in arts-related activities. Placement fees may also be demanded and accepted from sports professionals and people working in au-pair jobs. The amount to be paid by the employees is graded according to percentages of the remuneration that the employee who has been placed is entitled to for their period of work and ranges from 12-15%. In the case of job placement in au-pair jobs the maximum amount is DM 300.

At the same time as the deregulation of job placement, some changes also came into force in the field of the supply of temporary labour. Also with effect from 1 August 1994 the legislator relaxed the "synchronisation ban" mentioned earlier which prohibits restricting the duration of an employment relationship with the agency to the time of the first period of work for a lessee. The revision made this regulation not valid if the agency worker enters into an employment relationship with the lessee immediately after the period of temporary work and the agency worker had been classed by the public employment service as hard-to-place. A person is considered hard-to-place in particular when one or more hindrances to placement exist, e.g. serious disability, a lack of vocational qualifications or a low level of qualification, age (usually at least 50 years old), health-related limitations, a longer period of unemployment (at least a year) or personal reasons on the part of the jobseeker.

The model for this reform was the "START" organisation founded in 1977 in the Netherlands. In 1992 the first German Start branch was set up in Gronau in Westphalien (near the German-Dutch border) as a part of a model experiment. Representatives of employers, trade unions, and public authorities accompanied the experiment to obtain permanent employment with the lessee for hard-to-place unemployed people via the cost-effective but not-for-profit supply of temporary workers. The German Ministry of Labour made available loans and subsidies to support such providers. Financial support is available to companies whose proportion of hard-to-place people constitutes at least one quarter of the workers employed by them. For the allocation of funds it is irrelevant whether the companies are commercial or non-profit-making companies.

2.2.2 New activities

Private job placement services

The revision of the law made private job placement possible for all occupations and groups of people with the permission of the public employment service. The question arises first of all as to what influence in quantitative and qualitative terms this had on the placement business conducted on a private basis[10]. How has the number and type of private placement agencies changed compared with the time before deregulation? What was the extent of the increase in

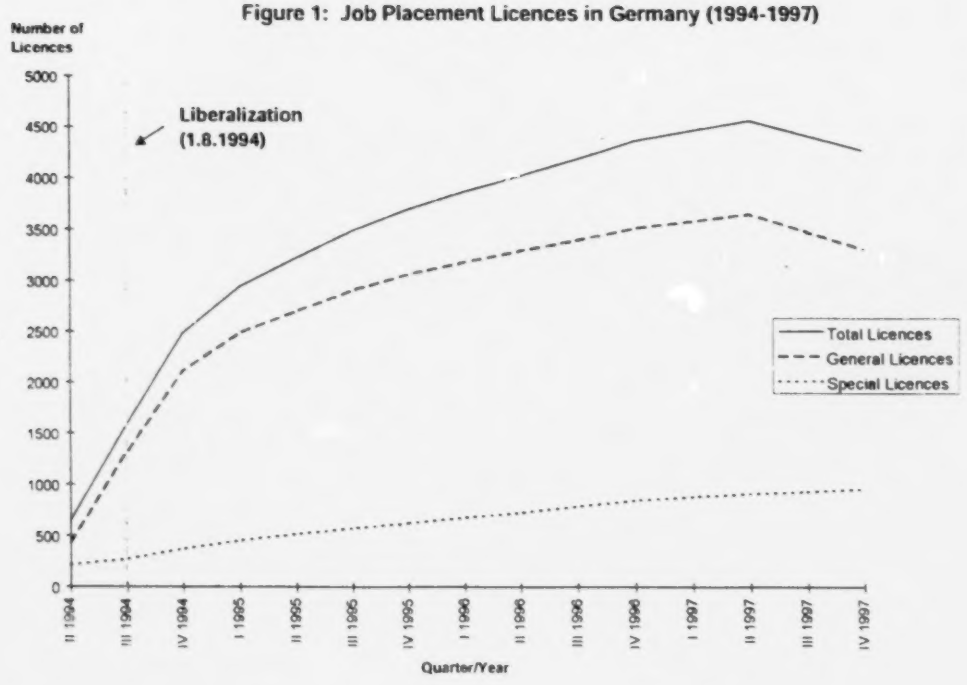
[10] Basic information on the subject of private job placement in Germany can also be found in Employment Observatory 1996 and OECD 1996

the number of placements made by private agencies? Which markets (structure of the vacancies filled and the jobseekers placed) are served by private job placement?

Since the two stages of deregulation in 1994 the number of job placement licences increased until 1996 (see Figure 1 below). Whereas at the end of the second quarter of 1994 653 licences were registered, at the end of 1994 there were already 2,485, by the end of 1996 they had increased in number to 4368. However at the end of the fourth quarter of 1997 the number of licences decreased to 4277. As one person can hold more than one licence (e.g. a general licence and a special one or several general licences), the 4277 licences at the end of the fourth quarter of 1997 are spread over 3192 licence holders. With the licences it is generally necessary to distinguish between general licences for placement services in Germany and the European Economic Area and special licences for placement activities to and from countries outside the European Economic Area.

Compared with the 290 organisations (performer and modelling agencies and non-commercial agencies) which already existed before deregulation, a job placement trade has developed within the shortest time. It must be taken into consideration here, though, that personnel consultants, who were already active and more or less tolerated before the deregulation, continue to carry out placement of managerial staff - without special authorisation and without being recorded statistically (see on this matter also the remarks in section B.1.3.). A small number of the agencies which have appeared since the deregulation in 1994 are performer and modelling agencies and non-commercial placement organisations which could also have been commissioned according to the old law. The majority of the new agencies are commercial placement agencies offering job placement as a principal activity or a secondary activity in combination with other personnel services (including the supply of temporary workers). The number of "inactive" licence holders is, however, still greater than the number of "active" agencies. At each of the times when a survey has been conducted (from August 1994 until now) about two thirds of all licence holders (and 50-60% of the new licence holders) reported that they had not made any placements. Among the "active" agencies there are larger firms (e.g. branches of the large temporary employment chains) and smaller, relatively independent firms

Figure 1: Job Placement Licences in Germany (1994-1997)



Source: Bundesanstalt für Arbeit (Arbeitsmarkt in Zahlen)

All licence holders are obliged to make available to the public employment service statistics concerning the number and structure of their placements. Here the "reported" placements are to be seen as the lower limit for the market importance of private agencies, because on the one hand there are omissions in reporting and on the other hand various activities similar to placement (e.g. of personnel consultants or of placements after deployment of temporary workers) are only insufficiently recorded. Table 1 below shows the development of the job placements made by private agencies according to various structure characteristics for the period from 1 August 1994 to 31 December 1996.

In spite of the continuous increase in the number of licence holders and licences, the number of placements made by private agencies has remained relatively constant over the course of time at 170,000-180,000 per six-month period.[11] A good 5% of these placements (just under 10,000) were placements to or from countries outside the European Economic Area. It is not possible to differentiate the remaining placements into those concerning Germany and those concerning the rest of the European Economic Area. However, it can be assumed that there are likely to be extremly few private placements to or from other countries in the European Economic Area.

With regard to the groups of people placed, it is noticeable that there is a very large number of foreigners (without any further specification, e.g. by nationalities) and part-time workers, but that older workers, seriously disabled people, new entrants into the labour market and the unemployed play a minor role in quantitative terms. Short-term placements definitely constitute an emphasis of the activities of private agencies. Some three quarters of all placements are in employment relationships lasting up to 7 days. A mere 10% of all private placements were for longer-term employment relationships, i.e. permanent jobs or fixed-term contracts for a duration of 18 months or longer. If the developments are regarded over time, however, the proportion of longer-term employment relationships as a part of all private placements is increasing - although still at a low level. A similar trend can also be observed to a certain degree for the placement of new entrants to the labour market and the unemployed.

The notifications of private agencies also provide information about the occupational groups into which they were able to place workers. The definite emphasis here is on artists, performers and sports professionals as well as unskilled workers, in other words occupational groups with a very high degree of fluctuation. This is especially true for the placements in short-term employment relationships (lasting up to seven days), where these two occupational groups, when counted together, make up 90% of all placements. But also in the case of longer-term employment relationships (lasting more than seven days) still more than 50% of such placements are for these occupational groups. In the case of the "new" commercial agencies, an emphasis can be seen in the occupations in general services, organisational, administrative and office occupations as well as in construction and construction-related occupations.

[11] If one takes into account the fact that the 161,300 private placements in the period from 1.8.1994 until 31.12.1994 refer to a period of only five months, even this number lies within the scope of the number of placements which were made by private agencies in the subsequent six-month periods.

Table 1: Job Placements through Private Agencies in Germany since liberalization (1.8.1994)

	Germany			Western Germany		Eastern Germany	
	1.8.-31.12.94	1.1.-31.12.95	1.1.-31.12.96	1.1.-31.12.95	1.1.-31.12.96	1.1.-31.12.95	1.1.-31.12.96
Total	**161300**	**354825**	**359053**	**326459**	**275076**	**28366**	**83977**
Duration of Employment as a % of total							
up to 7 days	78,6	75,2	73,2	76,7	72,9	58,3	74,2
8 days - 18 months	13,5	14,6	16,4	14,1	15,5	19,7	19,8
18 months and longer	7,9	10,2	10,4	9,2	11,6	21,9	6,0
total	100,0	100,0	100,0	100,0	100,0	99,9	100,0
Jobseekers as a % of total							
Women	39,9	40,7	39,6	40,8	43,1	39,0	28,2
Older than 45	4,1	5,1	5,4	4,7	6,2	10,1	2,8
Disabled	0,1	0,2	0,1	0,1	0,1	0,8	0,2
Foreigners	39,1	37,5	37,3	39,7	35,5	11,7	43,2
Part-time workers	49,5	60,0	57,7	60,8	48,3	50,3	88,5
New entrants	0,9	1,1	1,6	0,9	1,7	2,7	1,0
Jobless	3,1	3,5	4,0	1,7	3,2	25,2	6,7

Source: Bundesanstalt für Arbeit (Arbeitsmarkt in Zahlen)

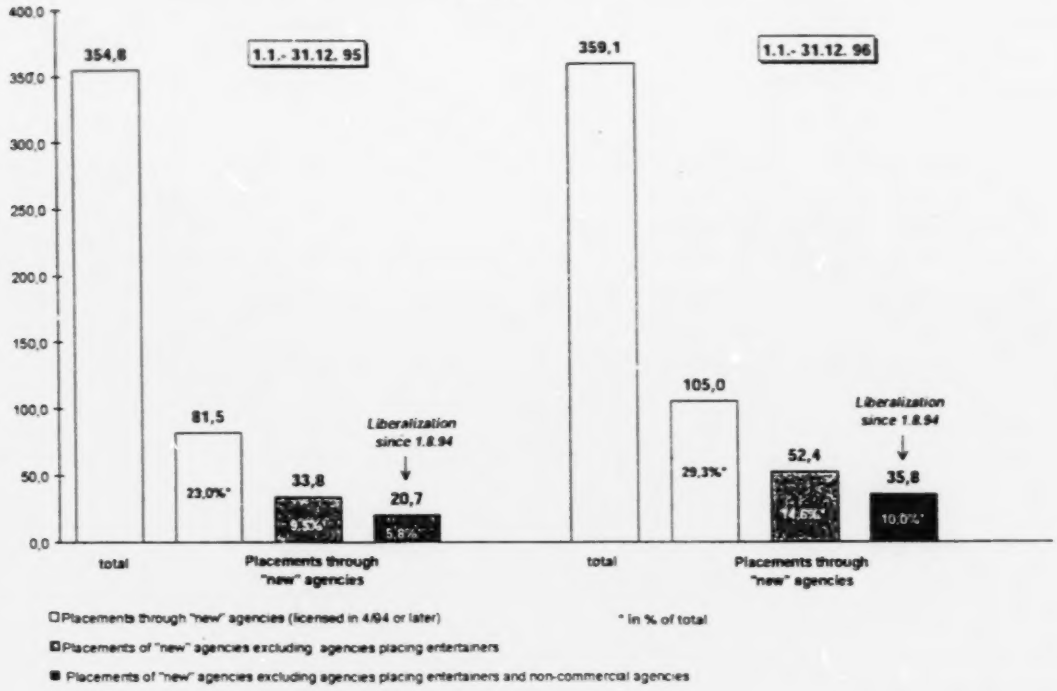
The information given by the agencies regarding the placements made according to occupational groups are also confirmed by the fact that the majority of placements are for jobs requiring only few skills. It must be pointed out here, however, that this is even more the case the shorter the employment relationships are. Consequently the proportion of placements dealing with unskilled and semiskilled work lasting up to 7 days was more than 80%. In the case of longer-term employment relationships (lasting at least 18 months), the proportion of activities requiring a minimum qualification level stood at 60% for 1996.

Differences also result with regard to quantities and structures when the placements made by private agencies in the old and the new *Länder* are compared. Whereas eastern Germany accounts for less than 10% of all placements in 1995 the share increased in 1996 to about 24% (see Table 1 above). This considerable increase is mainly due to a shift of activities from the western part of Berlin to the eastern part. Many former West Berlin agencies moved to East Berlin because of tax advantages and other incentives such as cheaper accommodation. If the structures are compared it is noticeable that in eastern Germany in particular the proportion of unemployed people as a percentage of all placements made by private agencies is in general clearly higher than in western Germany. This could be attributable to the considerably higher unemployment rate there (see also Section 1.2). The larger share of longer-term employment relationships among all private placements in eastern Germany must also be pointed out.

Using the official statistics of the placement activities by private agencies, the quantitative effect of deregulation can also be estimated (cf. Figure 2). It is first necessary to distinguish between "old" agencies that were already active before 1 April 1994 and "new" agencies which commenced their activity after 1 April 1994. In 1996, the new agencies contributed, with their 105,000 placements, nearly 30% of the roughly 360,000 private placements. In 1995 it was somewhat less than a quarter with 81,000 of 354,000. However, the placements made by performer and modelling agencies and by non-commercial agencies must be deducted from these figures. In both of these fields placement was already permitted before deregulation - albeit to a lesser extent. This leaves about 36,000 placements by new commercial agencies (outside the arts-related field) in 1996 (in the whole of 1995: 21,000). This means that approximately one tenth of all private placements made so far can be attributed to the deregulation in 1994. The new commercial agencies placed all in all 4,700 people in 1996 who were not employed before getting the new job. Even if the global deregulation effect can therefore only be classed as rather low, the relative significance of the deregulation effect becomes more clearly noticeable, however, in individual market segments. Thus the number of private placements in employment relationships lasting more than 7 days has more than doubled, to which the new commercial agencies have contributed substantially (cf. on this Section 3.2.2). Independently of the personnel consultants, who are more strongly orientated towards the field of managerial staff, the new private placement agencies have therefore opened up new markets in particular in the field of qualified skilled workers.

Figure 2: Additional Job Placements through "New" Agencies in Germany

- in 1000s -



Source: Bundesanstalt für Arbeit (Arbeitsmarkt in Zahlen)

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To a large extent independently of the deregulation of job placement, the trend towards an increased utilisation of commercial temporary employment agencies continued (see on this matter also Figure F1 in the Appendix and the remarks in Section 2.1.3). The key legal revisions in 1994 in the context of job placement also include the exemption rulings in connection with the state financial support of non-commercial temporary employment agencies. Until March 1997, 104 temporary employment businesses in the entire country received financial support. 86 of those are non-profit temporary employment businesses.

One of the important start-ups at the beginning of 1995 which had an impact extending across several regions was the company called START-Zeitarbeit NRW GmbH (START temporary employment NRW Ltd.). This enterprise was not only granted a loan of some DM 5.4 million from the Ministry of Labour until the end of the period of support in 1996, but also funds to the sum of DM 5.3m were made available by the *Land* of North Rhein-Westphalia in 1995, DM 3.32m of which was a subsidy from the *Land*. Among other things, in addition to the *Land* of North Rhein-Westphalia, the Trade Union Council of North Rhein-Westphalian and employers' associations are shareholders of START.

In March 1997 START NRW employed about 150 people as core staff in its 29 branches. From March 1995 until March 1997 3,966 previously unemployed people were recruited as temporary workers to be hired out (see Vanselow and Weinkopf 1997). 1,178 of these people (29,7%) were classed as hard-to-place according to the Ministry of Labour guidelines. In March 1997 1169 temporary workers were still employed with START NRW. Of the 2,797 temporary workers no longer with START NRW at that time, 1,185 (about 40%) had been either taken on by lessee companies or by other companies. The remaining 1,612 were in most cases (about 90%) made redundant by START NRW or in few cases left after terminating their contracts themselves. In this way it becomes clear that the non-profit supply of temporary workers has a double function for hard-to-place people: firstly an employment variant with a stabilisation function and secondly a placement variant with the aim of reintegration.

3 Evaluation part

3.1 The market for job placement

3.1.1 Theoretical considerations

Labour markets are a good example of so-called "search markets" in which there is a lack of information concerning the quality of supply and demand. If a national economy had only one labour market which offered homogeneous work performances, and if this fact was known to all the market participants, there would be no need for any facilities to support the matching of supply and demand on the labour market balance. The search for jobs and workers would proceed smoothly. As is generally known, however, this is not so in reality. Workers possess very different vocational skills, qualifications and personal abilities. Employers, too, demand very different qualifications for the supply of their products and services. There is not therefore a homogeneous labour market, but rather heterogeneous labour market segments, and this is a tendency that is clearly increasing.

Because obtaining information can require time and sometimes also a lot of money, mechanisms have developed on the labour market which facilitate the matching of supply and demand. Examples of this are newspaper advertisements, informal contacts or so-called "intermediaries". Fundamentally there are two types of intermediary: dealers and mediators. Dealers buy and sell on their own account or on behalf of a third party (e.g. stockbrokers or used-car dealers). Mediators, in contrast, do not sell. They merely bring together potential suppliers and potential demanders. The task of job placement is also the matching of supply and demand, in other words the bringing together of jobseekers and employers.

Job placement filters information on both sides of the market and can be of use by contributing to a successful filling of job vacancies. It fulfils all the conditions for a marketable service, as its customers can be expected to be willing to pay for the provision of the scarce commodity of information - about the availability and quality of jobs and candidates. The precondition for turning to a job placement service and therefore its market success is, however, its market reputation. The customer extrapolates the quality of the placement service in the past and assumes that it will remain constant in the future. Job placement is therefore one of the so-called "experience goods". This means that only if a cost/use calculation based on expectations shows job placement to be advantageous compared with other search alternatives, will potential customers voluntarily make use of placement services. At least in theory all job offers in a national economy can be regarded as a potential market for job placement. However, the real size of the market can only be examined from an empirical viewpoint.

3.1.2 The potential market from an empirical viewpoint

In order to determine the supply of jobs for the national economy in the Federal Republic of Germany both official statistics and the results of business surveys carried out regularly can be consulted. The different data sources provide national economic information about the stock of vacancies at a particular time and/or the recruitments in a particular period.

Table A4 in the Appendix provides an overview of the vacancies registered at the public employment service. It shows the annual average stocks of registered vacancies for the period 1980 to 1996 in western Germany and for 1991 to 1996 in eastern Germany. The comparison with the unemployment figures shows the well-known converse relationship for western Germany, according to which unemployment falls and the number of vacancies rises in times of an economic boom, and unemployment increases and the number of vacancies decreases in economically weak phases. Table A4 in the Appendix also indicates how many job offers were received by the employment offices between 1980 and 1996 (annually in each case). The size of this flow also confirms - at least for western Germany - the economic trend mentioned above.

The reliability of the vacancies statistics recorded by the public employment service is restricted for various reasons. Recording problems can lead to both an overestimation and to an underestimation of the actual national economic supply of jobs. There are three possible reasons for an overestimation of the national economic supply of jobs through the business statistics of the public employment service. Firstly it is conceivable that one and the same job is registered by one employer with several employment offices and is therefore counted more than once. Secondly it can happen when businesses have a larger number of vacancies to fill (for example 20 jobs at once) that they revise the demand downwards in the course of the job filling process. Thirdly it can be assumed that in some cases the period when a vacancy is registered (the period between the initial registration and the cancellation) is longer than the period in which the company concerned is seeking to fill the vacancy. This would be the case if

some of the vacancies registered at the employment offices were so-called "file corpses" (i.e. vacancies that should no longer be in the files). What is even more important than the overestimation of the actual national economic supply of jobs by the official labour market statistics as mentioned above is a possible underestimation. There are two essential reasons for this. First of all a company's search period can also be longer than the period of registration at the employment office. Such is the case when the company does not involve the employment office until a later point in the search process after first trying unsuccessfully to carry out the search alone. Secondly, as a result of notification by the companies not being compulsory, the employment offices are not involved by any means in all job filling processes. Above all for the latter reason, since 1989 the Institute for Employment Research (*Institut für Arbeitsmarkt- und Berufsforschung*) has regularly carried out a business survey on the labour requirements in the national economy. The survey is based on the replies from some 8000 companies and administrations from all over the country.

Table A5 in the Appendix provides a time series from 1989 to 1996 of the total number of job vacancies in western and eastern Germany in the fourth quarter of each year. As expected, the data obtained from the enterprise survey also follows the course of economic activity. One peculiarity of the survey can be seen in the fact that two categories can be distinguished in the registration of job vacancies: positions which are to be filled immediately and those to be filled later. In western Germany, however, irrespective of the economic situation, the respective shares of vacancies to be filled immediately or later as a percentage of the total number of job offers are obviously relatively constant over time. The survey also provides information as to the share of vacancies registered at the employment offices as a percentage of the total supply of jobs for the national economy. Between 1989 and 1996 the registration rate fluctuated between a minimum of 27.9% (1990) and a maximum of 37.7% (1994) and was generally higher in western Germany than in eastern Germany. In this respect it is noticeable that the registration rate develops conversely to the economy, i.e. in economically weaker phases the employment offices are notified of a clearly larger proportion of the national economic supply of jobs than in economically better times.

The vacancy survey also permits statements as to what kind of jobs are chiefly registered at the employment offices (see Table A6 in the Appendix for this). Irrespective of the qualification requirements, the registration rate was clearly higher for blue-collar than for white-collar workers. It must also be added that the employment offices are more frequently involved for vacancies to be filled immediately than is the case with vacancies to be filled at a later date. This indicates that in many cases companies seeking staff first make use of other search methods before falling back on the employment office.

A further source of information which is considered for the estimation of the market for job placement is the statistics of workers in employment covered by the social security system, which are also recorded by the public employment service. On the basis of the regular notifications by companies regarding social insurance, these statistics provide full data on the stock, the beginning and the termination of employment relationships liable to social security contributions. The statistics contain a wealth of personal details about the employee (e.g. sex, age, nationality, income, qualifications, occupation) and certain characteristics regarding his/her place of work (e.g. the size or the branch of industry of the employing company). It must be taken into account, however, that the statistics of people in employment covered by the social security system do not include all people in dependent employment. Employees who are not subject to social security contributions are excluded. These are on the one hand civil servants (*Beamte*) and on the other hand so-called "marginal part-time workers" who have low working hours and/or a low wage.

In Figure F2 in the Appendix the number of employment relationships commenced is related to the stock of workers in employment liable to social security contributions for the years 1984-1996. The recruitment or fluctuation rate determined in this way provides clues as to the intensity of job turnover on the labour market. The time series shows that in the mid-1980s the recruitment rate stood relatively constantly at a quarter and with the improved economy in the late 1980s and the early 1990s it increased to almost one third. During the course of the recession tendencies, however, the recruitment rate in western Germany dropped back to the level that had been usual in the 1980s.

The market on which job placement can operate is frequently equated with the number of recruitments at a national economic level. This can lead to an overestimation of the relevant market for job placement and to an underestimation of its actual importance. There are reasons for this which are related to the collection of data and the search requirements of the parties involved. An active search is not necessary for each of the employment relationships counted as commenced in the social security statistics. For example transfers of workers into separate companies belonging to one and the same company group are statistically counted as terminated and commenced employment relationships. Furthermore, "new" employment relationships can occur in the case of a company takeover, such as when the buyer officially starts a new company. In principle the same is true in the case of direct "recalls" of seasonal workers. It is therefore not surprising that business surveys reveal a lower number of recruitments for the national economy than the non-adjusted statistics of workers in employment liable to social security contributions (see Table A7 in the Appendix). The IAB panel on establishments, which has been carried out since 1993, however, obtains such low recruitment figures that these in turn have to be called into question. With retrospective examination (of a six-month period in the establishment panel) the companies usually underestimate short-term employment relationships and orientate themselves mainly by the mere change in stock between two points of time. Brief periods of employment, breaks, fixed-term contracts and extra staff even if registered and deregistered are sometimes not regarded as in- and outflows. An additional reason for the lower labour turnover in the IAB panel is that it covers all employed persons (i.e. self-employed, family workers, civil servants) - not only those covered by social security (around 80% of the workforce). Labour turnover for the whole economy can expected to be lower as more stable employment is included.

Even if exact recruitment figures were available, further methodical problems would arise in the demarcation of the relevant market for job placement. Thus many jobs which are filled using informal methods (e.g. via recommendations or waiting lists) can lie outside the range of job placement. If, for lack of better alternatives, the placement figures are compared with the number of recruitments, the latter is to be seen as the upper limit of the market for job placement. The market shares of public or private job placement determined on this basis then represent the lower limit of its market importance. That means, there are unavoidable difficulties in defining the size of the total market for job placements in empirical terms. These difficulties should be borne in mind when interpreting the available information about public and private market shares based on either official statistics as well as business surveys in the following section.

3.1.3 Public and private market shares before and after deregulation

The relative significance of the placements made by private agencies before and after deregulation can only be estimated if they are compared with the public placements and related to the potential market (overall number of recruitments for the national economy). Figure 3 below

shows the market share of the placement services from 1979 to 1996. The market share is defined as the share of placements as a percentage of all recruitments. It thus indicates how often public or private placement organisations succeeded in contributing to a successful filling of a vacancy. Only placements in employment relationships lasting more than seven days are included because with even shorter-term employment relationships it cannot be assumed that they were employment relationships subject to social security contributions. The reason for this is that the recruitment figures available are based on the statistics of workers in employment subject to social security contributions.

A comparison of the market shares of public and private job placement services shows a definite picture at a macro level. In quantitative terms the public employment service is the dominant provider of placement services before and after liberalisation. After somewhat lower market shares during a period of increasing unemployment in the early eighties, the public employment service, according to their own statistics, managed to increase their market importance continuously in western Germany. In the end, the market share stood at nearly 32% in 1995 (share of placements as a percentage of all recruitments). The deregulation of job placement in 1994 also clearly did not disturb this development. The structure of public placements in employment of more than seven days in western and eastern Germany can be seen in Table 2 below. What is remarkable here is the relatively high proportion of registered unemployed people among all those placed, and the large quantitative significance of placements in job creating measures in the new *Länder*.

Figure 3: Market Shares of Public and Private Job Placement Agencies in Western Germany (1979-1996)

1) Defined as the number of placements (>7days) divided by the number of recruitments

Source: Bundesanstalt für Arbeit (Arbeitsmarkt in Zahlen)

Table 2: Composition of Public Job Placements in Germany (1991-1996)

	Placements in Jobs lasting > 7 days	Unemployed	Women	Fixed-term contracts	Part-time jobs	Job-creation measures	Other subsid. employment
	in 1000s	as a % of placements					
Western Germany							
1990	**1569**	56,2	39,6	41,7	12,4	6,2	5,9
1991	**1532**	49,2	38,3	46,0	13,6	5,3	4,1
1993	**1442**	48,6	38,4	47,2	17,1	4,4	1,2
1994	**1596**	52,5	37,6	47,6	18,4	6,0	1,2
1995	**1731**	50,1	37,6	46,8	19,6	5,3	3,6
1996	**1795**	49,9	37,5	46,6	21,5	5,3	2,3
Eastern Germany [1]							
1991	**662**	65,8				63,8	20,0
1992	**638**	83,8	43,7		6,5	46,4	21,5
1993	**667**	82,5	45,5		26,1	47,0	7,7
1994	**752**	86,3	47,8		39,0	47,4	5,3
1995	**705**	84,5	48,0	55,3	26,6	39,7	9,0
1996	**735**	86,8	45,0	54,3	22,1	38,5	6,1

1) Data for Eastern Germany is incomplete

Source: Bundesanstalt für Arbeit 1997

The public placement figures stand in contrast to relatively small market shares of private job placement, which turned out to be well below 1% of all recruitments in the 1980s. Although the number of placements lasting more than 7 days in western Germany more than doubled between 1993 and 1996, the market share of private placement agencies still stood at only 1.3% in 1996. If one adds together public and private job placements in employment relationships lasting more than 7 days, only 4% of all job placements were made by private agencies in 1996. In eastern Germany, where no recruitment figures are available yet, the share of the private placements as a percentage of all public and private placements was as low as nearly 3%. The difference can be put down to the fact that private job placement has not yet gained a foothold in eastern Germany (with the exception of eastern Berlin as already mentioned) as it has in western Germany and a not inconsiderable number of the placements in the east are in forms of subsidised employment operated solely by the employment service (in particular job creation schemes).

The private agencies are of greater importance in quantitative terms in certain market segments. Thus nearly 21% of all placements in short-term employment (0.2 million of 0.96 million) were made by private placement agencies in western Germany in 1996. There were, however, similar relations at the beginning of the nineties, e.g. 0.26 million private placements of a total of 1.1 million), so in the case of short-term employment relationships, no immediate deregulation effect can be determined. It is also worthwhile taking a look at the placements according to occupational groups. Here it can be seen that private job placement actually plays a dominant role in the placement of performers and sports professionals. Something similar is also likely to be true for the placement of managerial staff, which is not included here and is difficult to record at all (cf. section 2.1.3). Since private activities were hardly restricted in these special fields even before deregulation, however, it is unlikely that a significant deregulation effect would be ascertainable there. What is noticeable, however, is the large number of unskilled workers (also compared with the placement figures of the public employment service, although these are not entirely comparable according to the occupational classification) for whom private agencies were able to find employment. This contradicts prior expectations that private agencies would almost solely deal with jobs with higher qualification requirements and the workers who could be considered for such jobs.

In addition to the business statistics of the public employment service, the IAB survey of vacancies has also provided information since 1994 regarding methods of filling vacancies (cf. Reyher/Spitznagel/Kretschmer 1990 and Leikeb/Spitznagel/Vogler-Ludwig 1995). Table 3 below reveals indicators for the use and the success of various search methods for 1994, 1995 and 1996 (in each case separately for western and eastern Germany). According to this information the newspaper advertisements placed by companies are (particularly in western Germany) the most frequently selected and most successful search method. Also informal channels play an important role in the search for suitable candidates (cf. in more detail on this subject: Deeke 1991). This is true irrespective of whether the jobs concerned are for blue and white collar workers or whether they are jobs with lower or higher qualification requirements. These figures for private placement agencies, which are based on the survey, confirm to a large extent the official statistics of the public employment service. Also the employers interviewed indicate that in western Germany 2% in 1996 (and 1% in 1994 and 1995) of the vacancies were filled through the successful involvement of private placement agencies.

It is necessary, however, to draw attention here to a definite discrepancy between the results of the business survey and the official statistics of the public employment service. It concerns the rate of use, the success rate and the market share of the placements made by the public employment service. The official statistics revealed a rate of use of some 42%, a success rate

of 75% and a market share of nearly 32% for western Germany in 1996. The business survey, however, found a not much lower rate of use of 38%, but a lower success rate of 32% and a lower market share of 13% for the public placement services in western Germany. Either an overestimation of the market share on the part of the official statistics or an underestimation by the survey could be responsible for this. There are good arguments for both of the possibilities.

One possible source of error in public statistics can result from placements involving more than one region. Activities could be counted twice if several employment offices were involved and each then took credit for the success of the placement. Inconsistencies can also arise through the recording of the public placements, if jobseekers were able to find a job with the aid of self-service facilities provided by public placement services (e.g. the computer-assisted job information system). Finally manipulation of the official statistics can - although difficult to prove - never be ruled out entirely, in particular because the overall number of placements acts as an important business performance target. In the case of the surveys it is, of course, necessary to ask first of all how representative they are. The number of short-term employment relationships, which is used to measure the extent of recruitment activity, is likely to be underestimated in business surveys. In retrospective surveys many companies no longer remember these marginal forms of employment. The companies are just as unaware of which search method contributed to the vacancy being filled in the end. Details differing from the official statistics can arise in surveys because searches are often carried out using several methods at the same time (cf. the last line methods per placement in Table 3 above), and the use of the public placement service (e.g. the open self-service facilities) is not always clear to the companies. This may also explain the comparatively high number of cases (more than 10% without any specification, cf. Table 3 above) in which firms were not able to indicate which search method had finally led to the successful filling of their vacancy. That means in the case of public placements, surveys probably mark the lower limit of the actual market importance (as a percentage of all recruitments) and official statistics mark the upper limit.

Table 3: Recruitment Methods: Use and Success of Filling Vacancies in Germany (1994-1996)

Recruitment Methods	Western Germany						Eastern Germany					
	User rate (%)			*Success rate (%)*			*User rate (%)*			*Success rate (%)*		
	1994	1995	1996	1994	1995	1996	1994	1995	1996	1994	1995	1996
Wanted aids placed by company	51	45	50	42	36	39	24	30	23	16	21	13
Reply to ads placed by job-seekers	6	6	6	3	2	1	6	5	4	2	1	1
Public employment service	32	30	38	13	12	13	37	31	49	22	18	34
Private placement agencies	2	2	2	1	1	2	2	3	1	1	1	1
Display at the company gate	3	2	4	1	1	1	2	2	1	1	1	0
Internal advertisement of job	14	22	17	2	4	3	7	17	6	2	5	2
Selection from applicants who had applied on their own initiative	18	26	18	12	19	12	18	22	13	17	17	9
Information from already employed	25	21	24	16	14	15	36	26	28	27	17	18
Without specification				10	11	14				12	19	22
Total	151	154	159	100	100	100	132	133	125	100	100	100

Source: IAB survey of vacancies (different years)

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But irrespective of whether official statistics or results of surveys are taken as a basis in the measurement of the market importance of public job placement, the market for private job placement still seems to be rather small and clearly has not exactly exploded as a result of deregulation either. How can this be explained? The deregulation in 1994 took place during a phase of unfavourable basic economic conditions. Unemployment rose considerably in Germany in 1994 and increased again clearly in 1996 and at the beginning of 1997. The years following 1994 were characterised by a multitude of redundancies and by companies showing a rather restrained willingness to take on staff. It was, however, not just because companies were recruiting less often that private placement agencies had poor market prospects, but because in such an economically difficult position, the companies wished to avoid as far as possible the staff recruitment costs which are inevitably linked with the utilisation of private placement services.

Another argument for the obvious initial difficulties experienced by private placement agencies in Germany can be seen in the fact that it clearly takes some time before the agencies can establish their services on the market in such a way that potential users also take advantage of them. According to official statistics many placement agencies are not (yet) active; a few of them have even returned their licences. Although according to the information available many jobseekers, including unemployed candidates, have approached private placement agencies, the companies, which mainly seek skilled employees, have so far only come to private agencies with occasional requests for filling vacancies. Thus private placement agencies are still operating more in certain regional or occupation-specific market niches. This can also be attributed to the fact that companies of course first make at least a rough estimate of the costs and benefits to be expected before turning to a private placement agency. As long as comparably qualified and productive workers can be procured more easily using other search methods, there is no reason for the companies to make use of private placement services. According to various statements from insiders the placement industry will take until the end of the century to be able to establish itself.

A further question for the evaluation of the deregulation effect is which search method lost out as a result of the private placements made additionally since 1994. In principle it is not possible to explain with the empirical material available which search methods the companies would probably have used if private placement services had not been available. There is thus no answer to the question whether more private placements were made at the expense of newspaper advertisements, informal contacts or of the public placement services. In view of the still small volume of private placement activities, as described above, this question is, however, not (yet) relevant. What is of importance at present appears to be merely the aspect as to whether private placement stands more in a complementary relationship or more in a competitive relationship to public placement services. The data available gives no indication that at a national economic level the growth of private placement services has led to public placement activities being displaced. On the contrary, the official statistics even indicate on the whole a higher market importance of (public and private) placement services. Thus the market share of public and private placement services in western Germany (as a percentage of all recruitments) increased from 26% in 1993 to more than 32% in 1995. This is at least for 1996 (but not for 1995) in line with the findings from the business survey, according to which in 1994 14% of all jobs filled in western Germany (23% of all jobs filled in eastern Germany) were effected via public and private placement services and in 1996 these proportions increased to 15% in the west and 35% in the east. Irrespective of changes in the quantitative market importance of job placement in the course of time, the influence private placement services have had on this seems to have been rather limited. A key question is therefore to what extent deregulation

could indirectly have influenced public placement services (and thus the level and the structure of their activities).

3.2 Impacts of new private placement activities

3.2.1 Public intervention in job search

Until deregulation in August 1994 the public employment service was the sole provider of job placement services, apart from a few exceptions. As the market shares of the public employment service shown in Figure 3 above clearly indicate, a majority of 70-80% of vacancies were filled without the active involvement of the public placement service. Newspaper advertisements and informal channels have always played an important role as a search method used by companies and workers. But already before deregulation in 1994 it was becoming increasingly clear that in view of limited public resources and the growing complexity of the labour markets it would become more and more difficult for the public employment service to be able to serve the entire placement market in quantitative and qualitative terms. Since deregulation this is no longer even necessary, as the following, rather theoretical considerations are intended to make clear (cf. Walwei 1996).

Since deregulation public placement services have no longer needed to deal with the kind of cases which can be adequately served by the market (private placement agencies or any other search channels). Now they can concentrate their limited resources more on those issues for which the market is unable to offer any solutions. The key clientele of the public placement service would be those jobseekers and companies which are not at all or only inadequately served by the private agencies and have only poor chances of success with a personal search. These are in particular the less wealthy companies and hard-to-place jobseekers. In this respect public placement services intervene in ongoing sorting processes on the labour market and change them above all in favour of groups of people and companies which would otherwise come off badly.

Besides a stronger target group orientation the deregulation opens up a further option for the public placement service. Public and private placement organisations can work together at least now and again. They can exchange experience and information and recommend each other. In this way they would be in the position to offer their particular clientele more alternatives than would be the case without co-operation. Public tasks can also be delegated entirely or in part to private agencies, by bonuses being promised to private agencies for the placement of certain target groups. There are therefore two issues to be discussed as a possible effect of deregulation on the role of the public employment service: has the public employment service been pursuing a target group approach to a greater extent since then or does it continue to aim for a strong market participation? Has there already been co-operation between public and private job placement organisations, and if so, with what intensity?

At the same time as the deregulation of job placement in the second half of 1994 took place, the public employment service launched a so-called "placement offensive". In this context it should be pointed out that the staff capacities in the PES for job placement remained unchanged despite deregulation (cf. Table A8 in the Appendix). In the second half of 1994 the employees of the public employment service were to call on companies in order to acquire vacancies for their own placement services. In 1995 and 1996, too, the quantities, with a business performance target of 3 million placements per year in the whole country, played a greater role than the structures behind them. It is only recently, and especially with the debate surrounding the reform of the Employment Promotion Act, that target group orientation is also

becoming more visible in the field of public job placement. Unlike the old Employment Promotion Act, which was still orientated towards the target of full employment, the new regulations see the role of active labour market policies (including job placement) more as an improvement in the matching of supply and demand on the labour. So-called "integration results" should indicate how many people and which people were able to be reintegrated into the labour market with which support measures and which support costs. More possibilities of a targeted use of scarce public resources also result from the nationwide introduction of self-service systems orientated towards jobs and candidates.[12] Such computer-assisted information systems in general follow the principle of "helping people to help themselves". They create more market transparency and facilitate searches for the "easier cases". In this way the staff capacities in the PES for job placement can be focused on the "more difficult cases" on both sides of the market.

Co-operation between the public employment service and private placement agencies has so far been rather rare and is generally not based on concrete agreements. Informal co-operation (e.g. in the form of information exchanges or on the basis of mutual recommendations) exists more or less intensively at a local level, i.e. between employment offices and local private placement agencies. This statement refers first and foremost to the co-operation of the public employment service with commercial placement agencies. The situation is somewhat different with regard to non-commercial placement organisations (e.g. the Chamber of Crafts or the Chamber of Commerce). In some local employment office areas there are far more formalised forms of co-operation between these institutions and the offices of the public employment service.

Also at a local level, albeit without the involvement of the public employment service, co-operation has developed in some places between local government and individual private placement agencies. In these places private agencies are commissioned for a fee with the placement of social assistance recipients. This so-called "Maatwerk approach" originated in the Netherlands in 1985 and was first put to the test in Germany in Hamburg-Harburg[13] in 1996. The responsible regional employment office granted Maatwerk a licence to conduct job placement activities from February 1996. With the collaboration between Maatwerk and the Hamburg Authority for Labour, Health and Social Affairs an attempt is being made to place 300 social assistance recipients in employment within a period of 15 months and with only six members of staff. The social assistance recipients for whom employment is sought must be able to work, have been in receipt of social assistance for at least one year, and must not at the same time be eligible for unemployment benefits. A placement is regarded as successful when the social assistance recipient placed no longer has to rely on social assistance for at least six months as a result of employment. In addition, the welfare recipient should be placed in a regular job with a net monthly wage of at least DM 1,350. For the successful placement of the 300 social assistance recipients Maatwerk receives a total fee of DM 1.2 million (i.e. DM 4000 per social assistance recipient placed). This project was expected to be financially advantageous for the authorities responsible for social assistance: each successful placement brings with

[12] After the open job information system "SIS" (Stelleninformationssystem) was introduced in the early nineties, an equivalent information service for employers was introduced in the mid-nineties. This service is intended to provide information on company-oriented measures of active labour market policy and make available candidate data on an anonymous basis through an electronic information system. It is intended especially to meet the needs for information of small and medium-sized businesses. This offer was created firstly because even with a reinforced field service not all small businesses could be taken care of. Secondly it is the small and medium-sized enterprises that frequently complain about difficulties in finding staff.

[13] A total of about 200,000 people live in the Hamburg-Harburg district. In May 1996 about 10,800 people between the ages of 18 and 65 received assistance for their subsistence there.

it a saving in social assistance, as the placement costs can already refinance themselves after 3-4 months in some cases.

At the beginning of the project in February 1996 Maatwerk was allocated approximately 900 people from the stock of social assistance who fulfilled the criteria for the job placement (period of receipt of social assistance, employability). During the project the pool of candidates was extended continously. Another 650 welfare recipients took part in the project from February 1996. Until January 1997, Maatwerk invited all in all about 1550 people for an interview. But in a third of these cases Maatwerk was for several reasons unable to do anything for their clients. Some recipients did not show up, others found a job before they were interviewed by Maatwerk, and again others were sent back to the Local Authorities due to their considerable physical or psychological handicaps. In spite of this, 268 of the remaining 1000 employable welfare recipients found a job with the help of Maatwerk in the period between February 1996 and January 1997. However, not in all cases was the net wage higher than the expected monthly wage of DM 1,350. But especially for single mothers part-time jobs implying lower wages were just what they were looking for. It should also be mentioned that 49 of the Maatwerk placements were terminated during the probationary period, i.e. within the first six months of employment. Taking this into account Maatwerk was able to make 219 successful placements (following the criteria above) in a period of 11 months. Recent information suggests that Maatwerk will probably reach its target of 300 placements in Hamburg-Harburg during the project period of 15 months.

The "Maatwerk approach" differs from traditional placement approaches in particular in that the Maatwerk placement officer goes in search of a job for one particular person to be placed. For this he or she approaches in particular smaller and medium-sized enterprises directly and looks for the job that suits "his" unemployed client. The Maatwerk principle is thus based not on a group of placement suggestions but on one single targeted placement suggestion. After its first use, the Maatwerk approach has now also been copied in other places (e.g. in Offenbach) and demonstrates that more variety can also constitute a valuable addition in the spectrum of publicly funded placement services. The most important criticism against the Maatwerk approach is that they have reached their target by creaming the pool of welfare recipients, i.e. by concentrating on the most promising of them. But this criticism can be countered by the argument that Maatwerk was allocated a group of really hard-to-place people which under other circumstances (especially without the programme) would probably not have found a job.

3.2.2 More placements and the labour market

In principle job placement[14] focuses on matching employers and people seeking work, so that they can enter into an employment relationship. The essential task of job placement involves keeping to a minimum any friction in the search for work and the filling of vacancies on increasingly less transparent labour markets. Through the provision and passing on of information concerning jobs and candidates, job placement can contribute to an improvement in market transparency and thus to the balance of supply and demand on the labour market. In concrete terms it fulfils the function of finding suitable candidates for the employers as quickly as possible, and suitable jobs for the jobseekers as quickly as possible. To what extent can jobs

[14] There is no need here for an account of the conceivable employment effects of an increased use of temporary workers by companies, because this study concentrates predominantly on the placement-related aspects of the supply of temporary workers (e.g. work trial during the hiring period). A discussion of the economic importance of the supply of workers by temporary employment agencies would go beyond the scope of the report.

be created and unemployment reduced by the additional activities of private placement agencies?

In so far as this question is focused on whether the private placement agencies have created jobs in their own firms (e.g. for themselves or for additional placement and office staff) at best only estimates are possible. The authorised placement agencies (licence holders) are not obliged to give details about the number of their employees etc. However, due to the fact that some 60% of the approximately 3,200 placement agencies which have received new licences since April 1994 (figure as per the end of 1996) have not yet registered any placements, one may be permitted to draw the conclusion that they are not (yet) employing any (placement) staff. The remaining 40% probably do not yet employ many staff as a result of the still relatively small extent of private placement activity, so that an increase in the stock from about 1000 before deregulation to roughly 5000 workers in the field of private job placement (including the owners and their employees) seems to be realistic. This direct net employment effect turns out lower, however, when it is taken into account that the activities of private placement agencies can at least partly be seen as contracting out staff procurement by companies. In combination with other personnel services therefore, private job placement would give rise to a trend towards relieving personnel departments in the client companies, also with respect to their staff.

If certain conditions are fulfilled the additional placements made by private agencies - as a result of the revision of the law - can result in positive employment effects. If the private agencies have succeeded in converting companies' latent need for employment into a more concrete need (e.g. by eliminating a lack of skilled workers or converting overtime into new employment), placements lead to more employment at the micro level (i.e. in the corresponding firms). A similar effect would be achieved if it was not a matter of additional jobs, but the available job offers could be filled more rapidly due to an increased involvement of the private agencies and faster placement. Frictional parts of the stock of vacancies would thus be reduced and to the same extent employment would be increased as a result of the gain in time. However, there is no information available as to how the acquisition of jobs is conducted (actively and reactively) by private agencies and what influence the private agencies have on the duration of the vacancies.

Both a more successful acquisition of jobs and a shorter duration of available vacancies at micro level (because of more efficient placement services) will not necessarily result in a corresponding increase in the number of employed persons. Firstly the aggregate effect for the national economy might be weaker because firms are in competition with each other. The expansion in one firm, e.g. as a consequence of a quicker filling of vacancies, could result in job losses and/or cancellation of vacancies in other firms. Secondly if a reduction in the duration of the vacancies can only be achieved by poaching, a new vacancy could arise in the company from which the worker is poached, which in turn can be difficult to fill. Thirdly a more efficient placement combined with shorter vacancy periods could have negative effects on alternative instruments of employment adjustment (such as the hiring of temporary workers) which contribute to the existing level of employment. From what has been said and from the fact that in principle decisions concerning the need to recruit and the filling of vacancies are made by companies and not by placement agencies, it can be assumed that the employment-creating effects of job placement activities are likely to remain relatively slight.

A different evaluation was received from the outset for the activities of private placement agencies when they intervene in the ongoing vacancy filling processes and increase their market share without there being any additionality in the sense of additional jobs or a gain in time.

After the preceding remarks it seems reasonable to suppose that the vast majority of private placements (similar to public placements) do not have any additional character. This can also be accounted for by the fact that private agencies are frequently involved by companies because they are expected to provide a perfect placement. In particular in the case of difficult vacancies, however, a conflict can arise between the targets of quality and speed of the placement.

If the employment-creating effects of job placement in general are therefore to be classed as rather slight and the displacement of other search methods is probable, it is necessary to discuss to what extent private placement agencies contribute to a redistribution of employment opportunities and unemployment risks among various groups of people. In order to be able to answer this question, it is necessary to imagine that there were no private placement services and to analyse which groups of people would then have been served. In general there are three groups of people to take into account in connection with this: those in employment but wishing to change jobs; the registered unemployed; jobseekers in the so-called "hidden labour force". With a constant number of employment opportunities, unemployment could only fall if more private job placements were in favour of registered unemployed people and at the expense of those in the hidden labour force. In view of the fact that about 95% of all workers placed in employment by private agencies were employed before (cf. Table 1 above), the possible direct relief effects of private job placement with regard to unemployment are rather low from the outset. It is open to question here whether at least as many unemployed people might have found a job without private job placement (i.e. by using other search methods).

It must therefore be stressed that hardly any additional jobs can be created through more private job placements. Thus neither cyclical unemployment nor a global deficit of jobs can be reduced through (public or private) job placement. The direct macroeconomic employment effects or unemployment relief effects of job placement remain on a small scale particularly because it is unable to create any jobs with its clients on the employer side. The new private job placement agencies are to be regarded first and foremost as an additional and useful search channel in the filling of vacancies. As a result the transparency on the labour market may increase followed by a probably greater turnover in employment. As a consequence, however, indirect effects on the labour market can result. More movement on the labour market would, in general, lead to an improvement of the quality of the matching process, e.g. if skilled workers employed in positions below their status are used in accordance with their qualifications. Greater fluctuation could therefore also open up better employment opportunities for the problem groups of the labour market. If, for example, the skilled workers employed in positions below their status find a better job due to more efficient placement services, semi-skilled or unskilled vacancies will have to be filled again.

3.2.3 Regulation and reputation of private agencies

The historical reason for the placement monopoly of the public placement service was the untrustworthy practices of private placement agencies in the 1920s and 1930s. The deregulation in 1994 took into account recent fears based on historical experiences to a certain extent by making legal provisions regulating access to the market and the practice of the profession. The legislative intent was to keep so-called "black sheep" out of private job placement via suitable regulations. For the job placement market, however, regulations are not only linked with advantages. They can result in considerable administrative costs and thus create "bureaucratic hurdles" for the agencies. Furthermore, over-demanding standards can hinder market access unnecessarily, thus making competition more difficult. It is possible that in this industry, which depends to a high degree on reputation, sound competition would

suffice to result in "black sheep" being ousted from the market. Frequently the long-term profit is enough of an incentive for the private agencies to conduct serious placement activities. In Germany, however, the model of "regulated competition" was selected in the introductory phase of private job placement. But even with the existence of regulations misuse cannot be ruled out, whether because it is not discovered or whether because existing regulations are cunningly by-passed. Do the new regulations constitute an effective protection against misuse in the field of private job placement?

Under existing law, private placement agencies - apart from a few exceptions - are not allowed either to demand or to accept payments from workers. Only relatively few cases of definite violations of the ban on demanding payment from workers have become known to the public employment service in its role as the supervisory body. Definite violations are to be understood as violations in which the fee demanded can be regarded without a doubt as "payment for placement in employment". This is the case for example when fees are to be paid for the job-seeker to be included in the placement agency files at all or for his/her application for work to be processed (so-called "registration fees" and deposits) or when fees are to be paid for services which are clearly job placement services, such as the sending of application material to potential employers. One individual case is to be mentioned as a peculiarity in which a private placement agency pointed out in a newspaper advertisement that placement was initially free of charge for the worker but that the employer was free to "charge the employee proportionately with the fee to be paid after recruitment". The public employment service prohibited the placement agency from using the advertising statement.

One difficulty in the assessment of the payment practices of private agencies is distinguishing between job placement services and other services. From a legal point of view all activities aimed at bringing about an employment contract count as placement activities. There is, however, an increasing trend for private placement agencies to break down their overall activity into separate components, differentiating between services which are free of charge for the worker and those which have to be paid for by the worker. The services which are then subject to payment include, for example, drawing up job application material, careers advice, training in applying for a job, carrying out aptitude tests, making labour market analyses and designing and placing newspaper advertisements. It is becoming increasingly difficult in practice to distinguish between job placement services (which are free of charge) and other services (which are subject to a charge), especially as the services which are subject to a charge can also be taken advantage of independently of job placement services. It is also necessary to consider the possibility that separate businesses (e.g. a job placement and careers advice office), which then support each other, can be set up by one person. The public employment service, in its role as the supervisory authority, and the Ministry of Labour are of the opinion that no payments whatsoever may be demanded of the jobseeker for being included in the agency's placement files, nor can the inclusion in the placement files be made dependent directly or indirectly on the use of certain services. In order to clarify this matter the present regulations regarding private job placement are soon to be amended.

A certain stir was caused by the Ministry of Labour's instruction not to grant licences for private job placement to members of the Scientology Organisation as they do not possess the required trustworthiness. In two cases licences had to be withdrawn for this reason. In one of the cases the former licence holder, however, now conducts a personnel consultation business, which is in principle licence-free. In a similar way as with the jobseeker-oriented consultation offers, there are therefore also differentiation difficulties with employer-oriented personnel consultation. Because of the indistinct criteria the public employment service fears an under-mining of job placement which is subject to licensing.

It is a matter of fact that among the holders of job placement licences there is a significant - unknown - number of businesses which are at the same time holders of a licence for the commercial supply of temporary workers. There is a tendency for more and more of these "double licence holders" to add a clause to their contracts for temporary work and their terms of business, saying that the business to which temporary workers are hired out is to pay a certain placement charge to the lessor/placement agency if they take on temporary workers permanently after the end of their period of temporary work.

According to the information and estimations available so far the regulations have proved to be worthwhile. This also has to do with the fact that a not inconsiderable number of private placement agencies have organised themselves into various associations and have subjected themselves to a so-called "code of honour". In this declaration of personal commitment the agencies guarantee to maintain certain standards of professional practice. Some of these standards go beyond what is laid down in the legal regulations. In their lobby work the associations in particular support placing an increased emphasis on the "suitability criterion" in the licensing of private placement agencies. People who lack the relevant occupational experience and/or qualifications should be denied access to job placement activities for reasons of quality assurance. The extensive ban on payment from workers is regarded as not always useful. In this connection there are calls for relaxing the charging regulations in a pragmatic way. For example it has been suggested that agencies be allowed to charge the placed worker a small percentage of their monthly salary for administrative expenses (e.g. making photocopies or producing attractive job application material) (cf. König 1996).

4 Conclusions: Summary and outlook

4.1 Main results of the study

In 1994 the German PES (Bundesanstalt für Arbeit) lost its so-called "placement monopoly". Since then it has been permitted to conduct private job placement (though not placement in training places) as an independent activity. However, according to the new law, private placement services are only permitted with a licence from the public employment service. It needs to be emphasized that the deregulation took place in a period of unfavourable basic economic conditions which was characterised by a serious recession and increasing unemployment.

Since deregulation in 1994 the number of job placement licences has increased continously. Whereas at the end of the second quarter of 1994 653 licences were registered, by the end of 1997 they had increased in number to 4,277. In spite of the continous increase in the number of licence holders and licences, the number of placements made by private agencies has remained relatively constant over the course of time at 170,000-180,000 per six-month period. Short-term placements definitely constitute an emphasis of the activities of private agencies. Some three quarters of all placements are in employment relationships lasting up to 7 days.

Using the official statistics of the placement activities by private agencies, the quantitative effect of deregulation can also be estimated. For this it is necessary to distinguish between "old" agencies that were already active before 1 April 1994 and "new" agencies which commenced their activity after 1 April 1994. In 1996, approximately one tenth (36,000 placements) of all private placements (360,000) can be attributed to the activities of new agencies and, therefore, to the deregulation in 1994. To a large extent independently of the

deregulation of job placement, the trend towards an increased utilisation of commercial temporary employment agencies continued after 1994

Although the number of placements in employment relationships exceeding seven days has increased strongly from a very low level, so far they hardly play an important role in quantitative terms. Only 4% of all placements made in the national economy could be attributed to private job placement even two years after deregulation. Compared with the number of recruitments in the national economy, the market share of private placement is no more than 1.5%. The public employment service, with its market share of more than 30% of all recruitments, continues to be the dominant provider of placement services. Although certain market segments, such as arts-related occupations or managerial staff, do constitute a domain of private placement, this was already the case before deregulation. Independently of the personnel consultants, who are more strongly orientated towards the field of managerial staff, the new private placement agencies have at least opened up new markets in particular in the field of qualified skilled workers.

In addition to quantitative developments (e.g. regarding the number of placements or market shares) the relationship of public and private placement services also has a more qualitative dimension. Since deregulation public placement services no longer need to deal with the kind of cases which can be adaquately served by the market (i.e. by private placement agencies or any other search channels). Now the public employment service can concentrate its limited resources more on those issues for which the market is unable to offer any solutions. Although in recent times target group orientation is becoming more visible this option does not appear to be fully utilised. Besides a stronger target group orientation deregulation opens up a further option. Public and private placement services can work together at least now and again. But co-operation between both has so far been rather rare, in spite of activities such as the Maatwerk approach, which has been implemented by local communities in order to place social assistance recipients.

The effects of placement activities on the labour market situation are rather limited. This is true for public as well as private placement activities. Because decisions concerning the need to recruit and the filling of vacancies are made by companies and not by placement agencies, it can be assumed that the employment-creating effects of job placement activities are likely to remain relatively slight. In most cases placement agencies of any kind intervene in the ongoing vacancy filling processes and increase their market share without there being any additionality in the sense of new jobs or through a significant reduction in search duration. That means that the new private agencies are to be regarded first and foremost as an additional and useful search channel in the filling of vacancies. As a result the transparency on the labour market may increase followed by a probably greater turnover in employment. Generally, greater fluctuation could open up better employment opportunities for people outside the labour market (e.g. such as the unemployed).

According to the information and estimations available so far the regulations dealing with private job placement have proved to be suitable. Nevertheless the extensive ban on payment from workers is regarded as not always useful. In this connection there are calls for relaxing the charging regulations in a pragmatic way. For example it has been suggested that agencies be allowed to charge the placed worker a small percentage of their monthly salary for administrative expenses (e.g. making photocopies or producing attractive job application material).

4.2 Perspectives of job placement

The development in the field of private job placement after deregulation, which took place in two stages in 1994, has so far proceeded unspectacularly. The trend towards an increased use of the supply of temporary workers was not noticeably affected by it either. The market importance of private job placement is unlikely to increase very significantly as a result of the public employment service also losing the placement monopoly for the careers advice directed at school-leavers and the placement in company training places as of 1 January 1998. But the effects of the deregulation of job placement that are visible so far must not lead to the rash conclusion that the picture could not change in the future. Two aspects play a decisive role in connection with this.

Firstly from a medium and longer-term point of view the question arises as to whether the market for private job placement could still grow. Both with respect to the commercial supply of temporary workers and to commercial job placement, the available potential does not yet seem to be entirely exhausted. The legal regulations continue to be an obstacle for the supply of workers by temporary employment agencies. A not inconsiderable employment and cost risk for temporary employment agencies is the ban on the fixed-term employment of temporary workers and thus the obligation to employ workers on a permanent basis. Therefore, it seems to be important that the regulations dealing with temporary work agencies were lifted again in April 1997. In addition to another increase of the maximum duration from nine months to twelve months the synchronisation ban has been partly relaxed (not only as in 1994 for the problem groups of the labour market). Now temporary work agencies are allowed to test temporary workers during their first period of employment, that means their first use by a lessee company. As a consequence, the employment relationship between the agency (lessor) and the worker can (in contrast to the former law) start off with a fixed-term contract. This further deregulation will presumably make the supply of temporary workers even more attractive and also more important in its additional placement function.

There are other barriers for commercial job placement. Firstly they are affected by the weak economy more than any other industry. More recruitments in a boom and staffing bottlenecks in certain market segments in a better economic situation would improve the market chances of private agencies. Secondly the offer of private placement providers is frequently not taken advantage of much because many companies, in spite of all the trends towards contracting out work, still declare the tasks of the personnel department virtually to be "a matter for the boss" and contract little out. This restrained practice of allocating work could, however, be reconsidered by the companies and increasingly revised if - as is already visible today - private agencies more frequently offer a comprehensive range of services. There could also be more demand in future for professional "job counselling" especially in the case of well qualified jobseekers. Private job placement would benefit from both of these developments.

Secondly the future understanding of the public placement service of its own role could also have consequences for private service providers. If in the future public placement services concentrated on a double strategy of helping people to help themselves in the "easy cases" and providing more assistance in the "difficult cases", this circumstance alone would produce additional fields of activity for private agencies. Although a complete privatisation of the public placement services is out of the question due to the negative consequences that could be expected for disadvantaged groups of people, the question nonetheless arises as to the form in which public interventions in search processes are to be organised in the future. Public providers would have the possibility to offer their services themselves as before and therefore complementary to the offers of private providers or they could commission commercial or

charitable private agencies in full or in part with the placement of problem groups of the labour market. The possibility of delegating the task of public job placement has, however, been used to only a slight extent so far (exception: Maatwerk approach). In view of the experiences made with this so far it can, however, be assumed that the examples so far are more likely to become the accepted thing rather than that these approaches pale into insignificance again. Unlike today there could thus be in future a much broader spectrum of placement services for all groups of job seekers as a result of more private providers.

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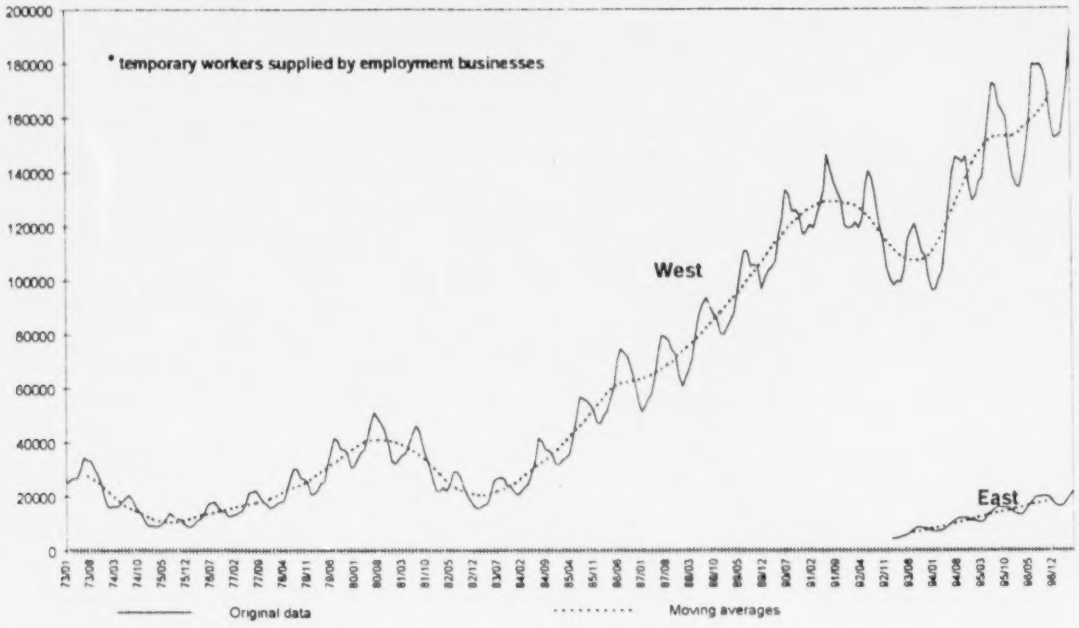
Figure F1: Agency Workers in Germany 1973 - 1996 *



Source: Rudolph and Schröder 1997

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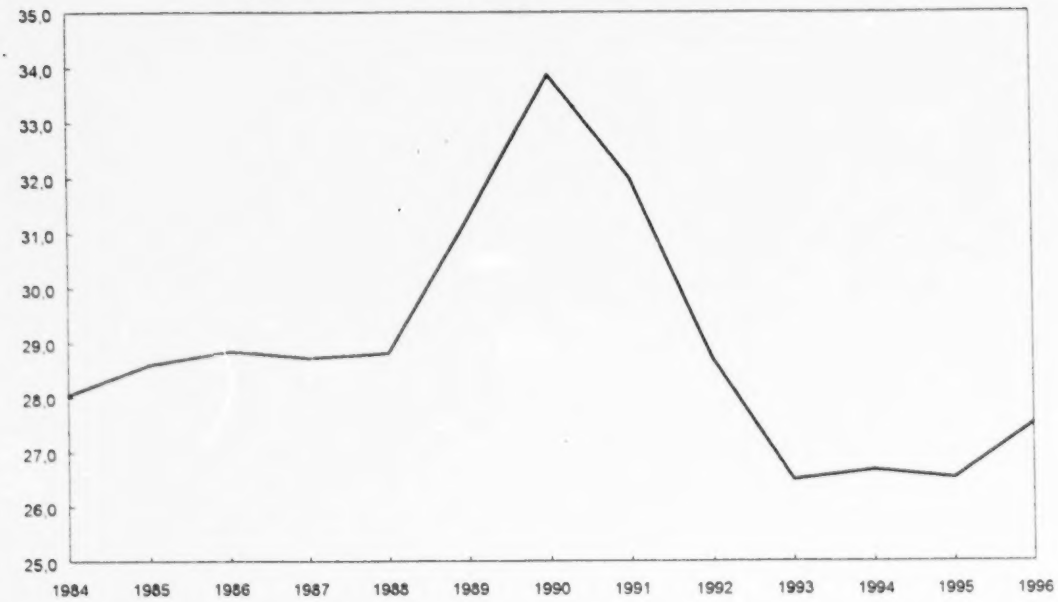
Figure F2: Recruitment Rates[1] in Western-Germany 1984 - 1996



1) Share of Recruitments as % of Dependent Employed

Source: Employment Statistics of the Federal Employment Services

Table A1: Role of Labour Market Policies in Germany (1991-1997) - in 1000s -

Year	Gainfully employed people [1]	Unemployed people [2]	Relief of the labour market through policy measures		
			Subsidized Employment [3]	Reduction of Labour Supply [4]	Total Relief
Western Germany					
1991	29190	1689	190	448	638
1992	29457	1808	224	452	676
1993	29002	2270	335	481	816
1994	28656	2556	190	460	650
1995	28464	2565	177	490	667
1996	28156	2796	187	498	685
1997	27875	3021	152	425	577
Eastern Germany					
1991	7321	913	1157	724	1881
1992	6387	1170	741	1244	1985
1993	6209	1149	462	1210	1672
1994	6330	1142	431	905	1336
1995	6396	1047	470	634	1104
1996	6259	1169	421	458	879
1997	6053	1364	323	331	654

1) Domestic concept (place of employment)
2) The corresponding unemployment rates can be found in Table 9
3) Estimation in employment equivalents, e.g. short-time work, bad-weather allowance, job creation measures, wage subsidy programmes
4) Estimation in employment equivalents, e.g. training measures, vocational rehabilitation, early retirement arrangements

Source: Bundesanstalt für Arbeit; Calculations by the Institute for Employment Research (IAB), from MittAB 1/1998

Table A2: Job Placements through Non-Commercial Agencies in Germany (1979-1993)

Year	Number of Agencies	Total Number of placements in 1000s	Short-Term Placements up to 7 days		Placements in jobs lasting longer than 7 days	
			in 1000s	% of total	in 1000s	% of total
Western Germany						
1979	49	129,7	120,1	92,6	9,6	7,4
1980	48	123,2	113,2	91,9	10,0	8,1
1981	46	114,0	101,8	89,3	12,2	10,7
1982	48	100,1	89,4	89,3	10,7	10,7
1983	48	104,1	93,4	89,7	10,7	10,3
1984	48	112,9	101,6	90,0	11,3	10,0
1985	47	129,6	118,4	91,4	11,2	8,6
1986	46	141,8	130,4	92,0	11,4	8,0
1987	46	133,2	121,5	91,2	11,7	8,8
1988	52	174,2	162,4	93,2	11,8	6,8
1989	55	168,5	155,5	92,3	13,0	7,7
1990	58	169,1	154,7	91,5	14,4	8,5
1991	61	173,7	159,0	91,5	14,7	8,5
1992	64	139,2	124,1	89,2	15,1	10,8
1993	65	145,1	130,6	90,0	14,5	10,0
Eastern Germany						
1992	3	23,9	23,8	99,6	0,1	0,4
1993	5	31,9	31,4	98,4	0,5	1,6

Source: Bundesanstalt für Arbeit (Amtliche Nachrichten; Different Volumes)

Table A3: Job Placements through Commercial Agencies in the Field of Entertainment in Germany (1979-1993)

Year	Number of Agencies	Total number of placements in 1000s	Short-term placements up to 7 days		Placements in jobs lasting longer than 7 days	
			in 1000s	% of total	in 1000s	% of total
Western Germany						
1979	111	115,1	90,5	78,6	24,6	21,4
1980	127	111,2	79,3	71,3	31,9	28,7
1981	147	120,4	82,1	68,2	38,3	31,8
1982	160	117,3	93,1	79,4	24,2	20,6
1983	174	131,2	107,4	81,9	23,8	18,1
1984	173	119,8	98,5	82,2	21,3	17,8
1985	169	142,2	118,1	83,1	24,1	16,9
1986	176	148,1	126,3	85,3	21,8	14,7
1987	186	152,7	130,2	85,3	22,5	14,7
1988	195	165,9	138,9	83,7	27,0	16,3
1989	195	171,0	154,5	90,4	16,5	9,6
1990	203	172,7	154,8	89,6	17,9	10,4
1991	241	165,0	141,4	85,7	23,6	14,3
1992	219	182,7	159,9	87,5	22,8	12,5
1993	203	115,7	97,9	84,6	17,8	15,4
Eastern Germany						
1992	22	4,9	4,1	83,7	0,8	16,3
1993	17	3,0	2,7	90,0	0,3	10,0

Source: Bundesanstalt für Arbeit (Amtliche Nachrichten; Different Volumes)

Table A4: Unemployed and Registered Vacancies in Germany (1980-1996, yearly averages)

Years	Unemployed		Registered Vacancies		Inflow of Reg. Vacancies
	in 1.000s	% of lab. force	in 1.000s	% of lab. force	in 1.000s
Western Germany					
1980	889	3,8	308	1,3	1709
1981	1272	5,5	208	0,9	1355
1982	1833	7,5	105	0,4	1124
1983	2258	9,1	76	0,3	1248
1984	2266	9,1	88	0,4	1403
1985	2304	9,3	110	0,4	1553
1986	2228	9,0	154	0,6	1841
1987	2229	8,9	171	0,7	1823
1988	2242	8,7	189	0,7	1934
1989	2038	7,9	251	1,0	2229
1990	1883	7,2	314	1,2	2297
1991	1689	6,3	331	1,2	2307
1992	1808	6,6	324	1,2	2207
1993	2270	8,2	243	0,9	2073
1994	2556	9,2	234	0,8	2170
1995	2565	9,3	267	1,0	2338
1996	2796	9,1	270	0,9	2377
Eastern Germany					
1991	913	11,1	31	0,4	758
1992	1170	15,5	33	0,4	733
1993	1149	15,6	36	0,5	785
1994	1142	15,3	51	0,7	920
1995	1047	14,0	55	0,7	878
1996	1169	15,7	57	0,8	886

Source: Bundesanstalt für Arbeit (Official Figures)

Table A5: Total and Registered Vacancies in Germany (1989-1996)

Quater/Year	Vacancies				
	To be filled immediately in 1 000s	To be filled later in 1 000s	Total in 1 000s	Registered with the PES in 1 000s	Registered with the PES % of total
Western Germany					
IV/1989	620	242	**862**	289	33,5
IV/1990	751	353	**1104**	308	27,9
IV/1991	700	284	**984**	322	32,7
IV/1992	554	230	**784**	275	35,1
IV/1993	373	163	**536**	198	36,9
IV/1994	428	153	**581**	219	37,7
IV/1995	441	213	**654**	227	34,7
IV/1996	462	174	**636**	232	36,4
Eastern Germany					
IV/1992	61	50	**111**	32	28,8
IV/1993	87	70	**157**	39	24,8
IV/1994	110	68	**178**	61	34,3
IV/1995	96	81	**177**	56	31,6
IV/1996	114	52	**166**	57	34,3

Source: Institute for Employment Research (IAB Vacancy Survey)

Table A6: Share of Vacancies Registered with the PES as Percentage of Total Vacancies by Qualification Requirements in Western Germany (1994-1996)

Characteristics of Vacancies	Quarter/Year		
	IV/1994	IV/1995	IV/1996
Qualification Requirements			
Unskilled/Low-Skilled			
Blue-Collar Workers	43,5	38,7	43,9
White-Collar Workers	27,7	37,9	19,3
Skilled			
Blue-Collar Workers	46,3	42,6	47,0
White-Collar Workers	25,7	24,4	25,1
Total	**37,7**	**34,7**	**36,4**
To be filled immediately	44,3	41,2	40,7
To be filled later	19,6	21,2	25,3

Source: Institute for Employment Research (IAB Vacancy Survey)

Table A7: **Recruitments in Western Germany (1993-1996)**
Results of the Employment Statistics and the IAB-Establishment Panel Survey

Period	Employment Statistics Recruitments in 1000s	Establishment Panel Recruitments in 1000s
1.1.-30.6.1993	3088	1525
1.1.-30.6.1994	2982	1577
1.1.-30.6.1995	3019	1633
1.1.-30.6.1996	3156	1414

Source: Employment Statistics of the Bundesanstalt für Arbeit
and Institute for Employment Research (IAB)

Table A8: Placement Staff in the German Public Employment Service (1989-1996)

Year [1]	PES staff (total)	PES staff in local offices	PES placement staff in local offices 2)	Share of placement staff in local PES offices
1989	53860	48087,5	16646,5	34,6
1990	72104	65398,5	22748,5	34,8
1991	74913	68010,5	23444,5	34,5
1992	76418	69301,5	24302,0	35,1
1993	78018	70848,0	24863,5	35,1
1994	78018	70854,0	24859,5	35,1
1995	77618	70504,0	24847,5	35,2
1996	76724	69697,5	24812,0	35,6

1) Figures include eastern Germany since 1990.

2) PES placement staff also includes all personnel responsible for job placement and vocational guidance.

Source: Bundesanstalt für Arbeit

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